



The State of Blended Finance 2021



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- The Lab (Climate Policy Initiative)

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Letter From The CEO



This is the 5th edition of Convergence's flagship report. We've come a long way since we started reporting on the state of blended finance in 2017. In the last few years, blended finance has grown from a niche field to a central topic at major conferences and boardrooms around the world. As it becomes more mainstream, we also hear more voices talking about blended finance at ever higher levels of sophistication.

What we are not seeing is the requisite leap into action. Over the past five years, blended finance flows have averaged around \$9 billion per year – steady growth, but not close to the exponential growth needed. Then in this year's report, we saw a significant decrease in flows (~\$4.5 billion in 2020, 50% less than in 2019). This decrease, at a moment where blended finance is on everyone's lips and when it is needed more than ever, is alarming.

As we wrote this report, the effects of climate change raged unabated as floods ravaged Western Europe, catastrophic tropical cyclones and extreme heat appeared across Africa, and Turkey experienced its worst-ever wildfire season, all while the ongoing pandemic exposed our world's vast inequalities, with developing countries bearing the economic brunt of the disease and finding themselves last in line for vaccines.

That's why this year's report is focused on scale. It's time for blended finance to reach its full potential and meet its promise of attracting private capital into emerging markets at volumes never seen before.

There are of course some points of light. A few actors stimulated the field in the last year, and we've given some of them a voice in this report. However, what we need are a thousand sparks. It will take many more of us to go out and be bold for radical change to happen and to overcome the sense that it can't be done.

The time to scale is now. We're into the last decade of the 2030 agenda and we are nowhere near the trillions we will need to achieve it. Blended finance isn't a silver bullet, it's a tool, and it's time we started using it.

A handwritten signature in black ink that reads "Joan M. Larrea". The signature is written in a cursive, flowing style.

JOAN M. LARREA
CHIEF EXECUTIVE OFFICER, CONVERGENCE

Executive Summary

The Sustainable Development Goals (SDGs) target a range of development challenges, from combating climate change to ending poverty and hunger. To achieve the SDGs in developing countries, a significant scale-up of investment is required. Blended finance is the use of catalytic funding (e.g., grants and concessional capital) from public and philanthropic sources to mobilize additional private sector investment to realize the SDGs. It is one of several approaches to financing the SDGs, with the United Nations member countries reaching consensus on its importance at the Third International Conference on Financing for Development in 2015. Since then, blended finance has become a familiar concept for a diverse set of organizations across the public, private, and philanthropic sectors. At the same time, current blended finance flows, averaging around \$9 billion per year over the past five years, will not achieve the billions to trillions agenda. For blended finance to achieve its full potential, blended finance flows must increase substantially, bolstered by greater and / or more efficient provisions of concessional capital, combined with significantly more participation from private (and particularly institutional) investors.

In Part I of the report, blended finance data and insights compiled by Convergence provide an updated analysis of the blended finance market, including blending approaches, sectors, regions, and investor trends. For the first time, the State of Blended Finance will include a thematic focus on scale, addressed in Parts II and III of this report:

- Part II highlights key challenges to achieving scale in the blended finance market.
- Part III presents Convergence's recommendations on achieving scale in the blended finance market, followed by guidance and perspectives from experts in the field (including Development Agencies, Multilateral Development Banks and Development Finance Institutions (MDBs / DFIs), and institutional investors) in the form of guest op-eds.

Part I: Data Trends

Deal Trends

Convergence has captured nearly 680 blended finance transactions, representing aggregated financing of over \$160 billion. Key findings from this report include:

- Annual blended finance capital flows have averaged approximately \$9 billion since 2015. The blended finance market has also experienced a steady annual deal count over this period, averaging 55 closed transactions per year. Although the number of transactions closed in 2020 follows annual market trends, blended finance flows were significantly lower compared to historical financing trends (~\$4.5 billion in 2020, 50% less compared to 2019).
- Funds continue to represent the largest share of blended finance transactions, with private equity vehicles in particular gaining notable traction since 2018. Private equity and venture capital ecosystems in emerging markets are in turn driving greater capital flows to more blended finance companies.
- Sub-Saharan Africa continues to be the most common destination for blended finance flows; the region saw a significant uptick in blended finance activity in 2020 compared to previous years.
- The agriculture sector has witnessed increased momentum in the blended finance market from 2018-2020, driven by an increased focus on agribusiness and climate-smart agriculture. Looking forward, Convergence's live market data indicates a growing focus on blended finance in health following the economic fallout from the COVID-19 pandemic.
- The number of transactions structured with

¹ Note all \$ figures are in USD.

concessional debt and equity reached a historical high in 2020; a possible reflection of heightened perceived risk in global investment due to the pandemic and the resultant need for more risk-bearing capital. Conversely, the deployment of guarantee and insurance products remains limited and continues to make up only a fraction of concessional capital disbursements by public institutions.

- The blended finance – gender nexus has not yet achieved mainstream momentum. However, the launch of several gender-intentional and innovative structures in recent years demonstrates an established interest among private investors and blended finance practitioners alike for investment opportunities with an incorporated gender lens.

Investor Trends

According to Convergence’s database, over 5300 financial commitments have been made to blended transactions to date. This report identifies over 1450 unique organizations across the public, private, and philanthropic sectors that have made financial commitments to at least one blended transaction to date. Key findings on investor trends include:

- The use of blended finance as a tool by investors remains limited, with most organizations tending to participate in blended finance on a one-off basis; a minority of organizations have made multiple commitments to blended transactions.
- MDBs and DFIs have consistently been the most prominent investor group in blended finance by both the number of commitments made and the value of their aggregate financing.
- While development agencies, foundations, and NGOs account for smaller proportions of total commitments to blended transactions, they account for outsized proportions of total concessional commitments to blended transactions.
- Debt and equity investments are the instruments most commonly used by commercial investors, MDBs and DFIs, and impact investors.

Part II: Achieving Scale In The Blended Finance Market – Key Challenges

In Part II of this report, Convergence discusses four key challenges to achieving scale in blended finance:

- **Lack of a private sector mobilization strategy and action plan:** Blended finance is one tool in the development toolbox centered on increasing the quantum of financing to SDG projects. Donors are the main source of the catalytic funding that creates the market-equivalent investments that mobilize private investment, but they have not prioritized and budgeted private sector mobilization as a necessity to significantly narrow the SDG financing gap.
- **Low levels of coordinated participation from developing country governments and untapped domestic resources:** Representation from developing country governments and expertise from regional development banks and institutional investors is crucial to scaling blended finance. Domestic institutional capital remains largely untapped when it comes to financing SDG investments.
- **Lack of transparency on blended finance activity limits its scalability:** Concessional capital providers do not publicly disclose financial terms or ex-post development outcomes, limiting the evidence base for blended finance as a development tool, while private investors do not disclose data on

financial performance due to confidentiality concerns. Together, this hinders blended finance from scaling.

- **The ecosystem for blended finance is underdeveloped:** There is a lack of financial intermediation in the blended finance market, and for addressing the SDG investment gap more generally. On the one hand, donors and investors are looking to channel large amounts of capital towards market opportunities aligned with the SDGs. Yet, SDG projects are often small, and there are few intermediaries in the market equipped to channel these flows. Even when blended finance can successfully aggregate pools of cross-border investment, there are few intermediaries that can channel these flows effectively.

Part III: Achieving Scale In The Blended Finance Market – Recommendations & Guest Op-Eds

In Part III of this report, Convergence presents its recommendations for achieving scale in blended finance, followed by perspectives and insights from key industry stakeholders through guest op-eds and interviews:

Recommendations

1. Donors should make private sector mobilization an essential pillar of their strategy
2. MDBs and DFIs must put in place strategies to engage with investors on a radically different scale
3. Host country governments can create an enabling environment for blended finance by:
 - 3.1 Leveraging limited public funding strategically to attract private investment
 - 3.2 Using regional and national MDBs / DFIs as deal originators
 - 3.3 Focusing on blended finance projects for local investors that are appropriately structured
 - 3.4 Using domestic institutional investor consortia to mobilize local currency financing
4. Practitioners should support scale by focusing on proven and replicable blended finance structures. They should also fund standardized simplified fund structures and look to launch aggregation vehicles.
5. Convergence advocates for innovation that is additional to the market yet familiar and replicable to investors
6. All practitioners, but particularly donors, should publicly disclose blended finance data at the transaction level

Introduction

Blended Finance

To achieve the SDGs, a significant scale-up of investment is required. The UN estimates that the annual funding needed to achieve the SDGs by 2030 is nearly \$3.9 trillion, much greater than the estimated current SDG-focused funding of \$1.4 trillion from domestic and international sources. The \$2.5 trillion gap greatly exceeds official development flows and philanthropic commitments: the Organization for Economic Cooperation and Development (OECD) [reports](#) that total official development assistance (ODA) from the 30 OECD Development Assistance Committee (DAC) members reached an all-time high of [\\$161.2 billion](#) in 2020, while Development Initiatives estimates that private development assistance (e.g., development assistance from non-public sources like foundations, corporations, and NGOs) is around \$45 billion.²

The shortfall in financing for the SDGs has been exacerbated by the onset of the COVID-19 pandemic and its [impact](#) on the economies of developing countries. With the global economic downturn having a [disproportionate impact](#) on low-income and emerging economies, the OECD's latest Global Outlook on Financing for Sustainable Development [projected](#) that developing countries could face an additional shortfall of \$1.7 trillion in financing in 2020, as a result of additional pandemic-related financing needs and a drop in external private resources. Adding to the existing annual financing gap of \$2.5 trillion this would result in a possible annual SDG financing gap of \$4.2 trillion.

Blended finance is one critically important approach to mobilize new sources of capital for the SDGs.

This is evidenced by the UN member countries' consensus on the importance of deploying public funds to attract private investment at the Third International Conference on Financing for Development in 2015 in Addis Ababa. Convergence was established out of the Addis Ababa Action Agenda to build the blended finance market to attract significantly higher amounts of private capital to the SDGs. Since then, blended finance has become a familiar concept across a diverse set of stakeholders – from development agencies to private foundations, impact investors to commercial banks.

Blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in developing countries to realize the SDGs. Blended finance allows organizations with different objectives to invest alongside each other while achieving their own objectives (whether financial return, social impact, or a blend of both). The main investment barriers for private investors addressed by blended finance are (i) high perceived and real risk and (ii) poor returns for the risk relative to comparable investments. Blended finance creates investable opportunities in developing countries, which leads to more development impact.

Blended finance is a structuring approach. It is not an investment approach, instrument, or end solution. *Figure 1* highlights four common blended finance structures:

- i. Public or philanthropic investors provide funds on below-market terms within the capital

² Development Initiatives. (2016). Private development assistance: key facts and global estimates. Bristol: Development Initiatives. August 15, 2016. Accessed August 8, 2019. <http://devinit.org/post/private-development-assistance-key-facts-and-global-estimates/>

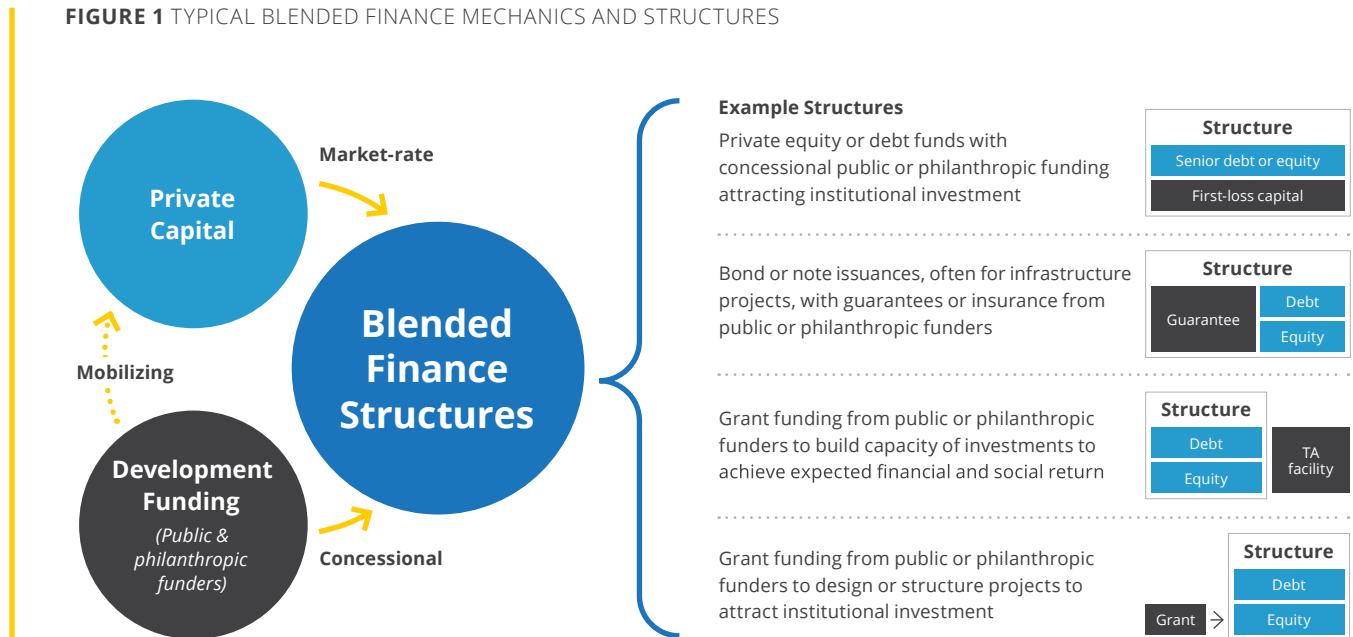
structure to lower the overall cost of capital or to provide an additional layer of protection to private investors

ii. Public or philanthropic investors provide credit enhancement through guarantees or insurance on below-market terms

iii. The transaction is associated with a grant-funded technical assistance facility that can be utilized pre- or post-investment to strengthen commercial viability and developmental impact

iv. Transaction design or preparation is grant funded (including project preparation or design-stage grants)

FIGURE 1 TYPICAL BLENDED FINANCE MECHANICS AND STRUCTURES

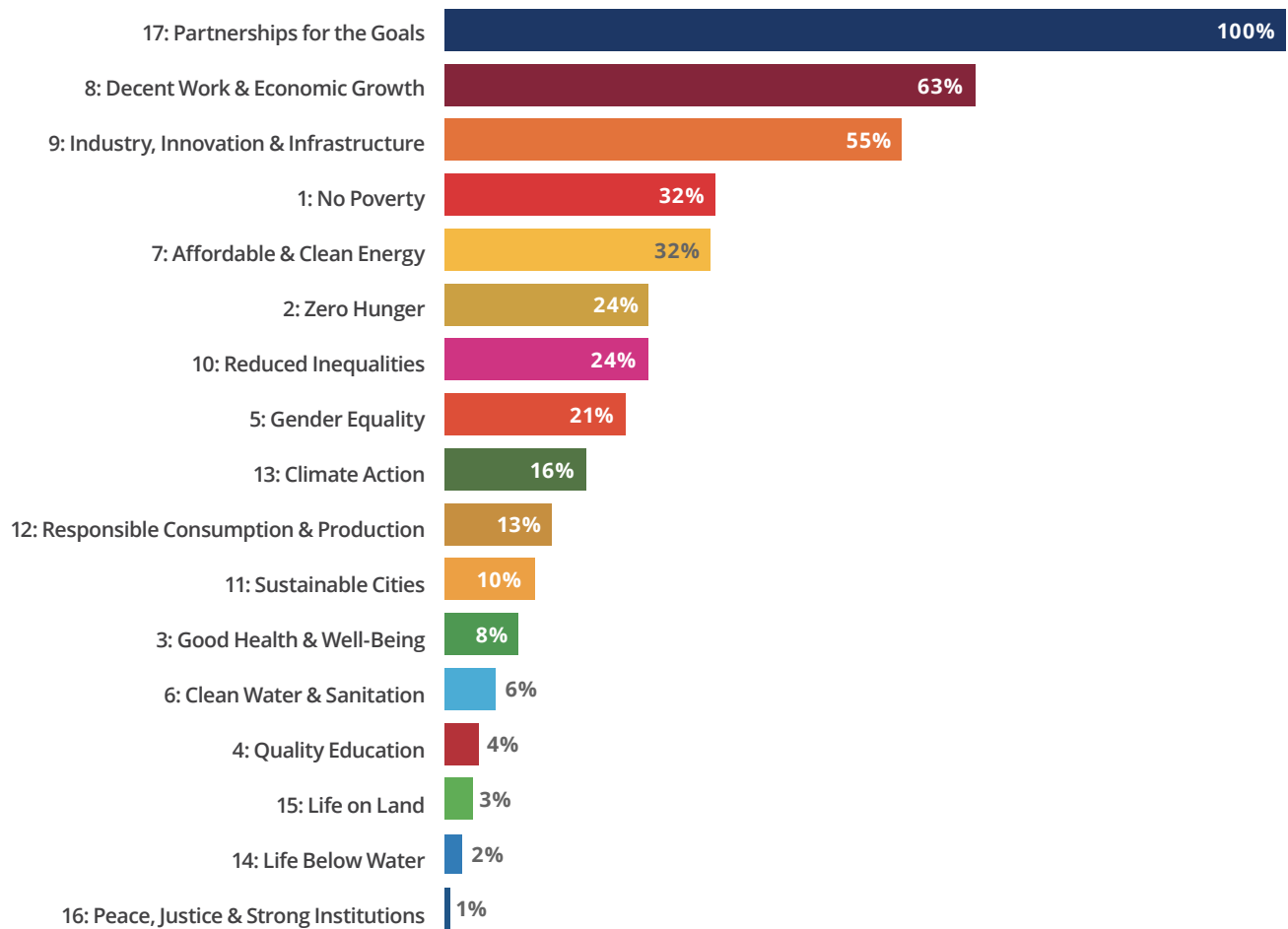


Concessional capital and guarantees or risk insurance are used by the public or philanthropic sector to create an investment opportunity with acceptable risk-return profiles for the private sector by (i) de-risking the investment or (ii) improving the risk-return profile to bring it in line with the market for capital. Concessional funding includes scenarios where the public or philanthropic funder takes a higher risk profile for the same or lower rate of return or the same risk profile for a lower rate of return. Design-stage grants are not direct investments in the capital structure but improve a transaction's probability of achieving bankability and financial close; similarly, technical assistance funds operate outside the capital structure to enhance

the viability of the endeavor and improve impact measurement.

It is important to note that blended finance can only address a subset of SDG targets that are investable. According to analysis conducted by the Sustainable Development Solutions Network (SDSN, a global initiative of the UN), approximately half the funding required to achieve the SDGs in developing countries can be in the form of investment. For example, blended finance is highly aligned with goals such as Goal 8 (Decent Work and Economic Growth) and Goal 13 (Climate Action), while less aligned with SDGs such as Goal 16 (Peace, Justice and Strong Institutions).

FIGURE 2 ALIGNMENT BETWEEN BLENDED FINANCE TRANSACTIONS AND THE SDGS (2018-20)



About Convergence

Convergence is the global network for blended finance. Convergence generates blended finance data, intelligence, and deal flow to increase private sector investment in developing countries and sustainable development. Convergence works to make the SDGs investable through transaction and market building activities:

- **A Global Network:** We have a global membership of over 200 public, private, and philanthropic organizations like the European

Investment Bank (EIB), Rabobank, Old Mutual, and World Wildlife Fund (WWF). We create many opportunities for Convergence members to connect, including through networking events, capacity building sessions, access to our fundraising deal platform, and member-exclusive content and support.

- **Data and Intelligence:** We curate and produce original content that builds the evidence base for blended finance and supports practitioners

in their efforts to execute blended transactions, including (i) data on deals and investors, (ii) case studies, intelligence briefs, and market reports, (iii) workshops and trainings, and (iv) webinars.

- **Deal Flow:** We have built a fundraising deal platform for investors and those seeking capital to connect. As of September 2021, there are live opportunities seeking to raise over \$6 billion, representing over \$11 billion in aggregate deal value. All deals are screened by our team to ensure fit within our mandate.
- **Market Acceleration:** Our [Design Funding](#) program offers grants for the design of innovative blended finance vehicles that aim to attract private capital at scale. As of September 2021, grantees have raised over \$800 million of additional capital – that’s more than a 100x multiple on the over \$7 million Convergence has awarded. Convergence also acts as the sole

independent evaluator to the United Nations Joint SDG Fund for operationalizing the [Call on SDG Financing Component 2: Catalyzing Strategic Investments](#). So far \$41 million has been awarded in funding to UN country teams to design financial structures to catalyze additional investment for the SDGs, based on Convergence’s recommendations.

Convergence focuses exclusively on blended finance to catalyze private investment. Other important stakeholders and initiatives, such as the DFI Working Group on Blended Concessional Finance for Private Sector Projects (DFI Working Group) focus on a broader scope of blended finance that includes the use of development funding to mobilize commercially oriented public capital (e.g., capital from MDBs and DFIs). Convergence works closely with the OECD, DFI Working Group, and other key stakeholders to coordinate blended finance activity.

Report Methodology and Overview

The State of Blended Finance is Convergence’s annual report on blended finance trends, opportunities, and challenges. It builds upon the inaugural report released in July 2017.³ The State of Blended Finance 2021 provides an updated analysis of the blended finance market based on Convergence’s continuous data and intelligence collection efforts and outlines key blended finance trends and developments in the past year. The report includes input from Convergence’s 200 member institutions and other key market participants.

Convergence curates and maintains the largest and most detailed database of historical blended finance transactions to help build the evidence base for blended finance. Given the current state of information reporting and sharing, it is not possible for this database to be fully comprehensive, but it is the best repository globally to understand blended finance’s scale and trends. Convergence continues to build out this database to draw better insights about the market and disseminates this information to the development and finance communities to improve the efficiency and effectiveness of blended

³ The State of Blended Finance 2017 was jointly produced by Convergence and the Business and Sustainable Development Commission’s Blended Finance Taskforce (BFT). The purpose of the working paper was twofold: (i) to expand the evidence base around the potential of blended finance to help close the SDG funding gap and (ii) to inform the recommendations the BFT intended to deliver to unlock systemic barriers in the blended finance ecosystem that were preventing the flow of mainstream capital into blended finance transactions at scale. Based on the work of Convergence and others, the BFT produced an Action Programme in early 2018.

finance to achieve the SDGs. This year, Convergence also leverages in-house data from its proprietary fundraising deal database to provide a forecast on emerging trends in the market. All data in this report reflects Convergence's data collection efforts as of September 2021.

Information is collected from i) credible public sources such as press releases, ii) information sharing agreements with key data aggregators like the OECD, and iii) data validation exercises with Convergence members and partners. To be included in Convergence's database, a deal must meet three main criteria:

1. The transaction attracts financial participation from one or more private sector investor(s)
2. The transaction uses catalytic funds in one or more of the following ways:
 - Public or philanthropic investors provide concessional capital, bearing risk at below market returns to mobilize private investment, or provide guarantees or other risk mitigation instruments
 - Transaction design or preparation is grant funded
 - Transaction is associated with a technical assistance facility (e.g., for pre- or post-investment capacity building)
3. The transaction aims to create development impact related to the SDGs in developing countries

Defining Scale: This report includes a thematic focus on scale in the blended finance market. Convergence uses 'scale' to refer to the crowding-in of significant volumes of financing towards the SDGs, particularly private sector financing. Institutional investors [have significant assets under management](#) (AUM) and prefer larger deal sizes to avoid the high relative transaction costs associated with many smaller deals. They generally prefer larger investment sizes (\$10 – 15 million) and for their investment to be no larger than 20% of the overall transaction size. This means that to achieve scale in blended finance, there is a need for more transactions that are at least \$100 million in size, which can be achieved by pooling developing country assets within portfolio approaches.

Additionally, standardization plays a critical role in scaling by reducing incremental transaction costs and simplifying structures for the benefit of institutional investors. Finally, the replication of well-proven solutions, including in new geographies or sectors, is also an important pathway to scale.

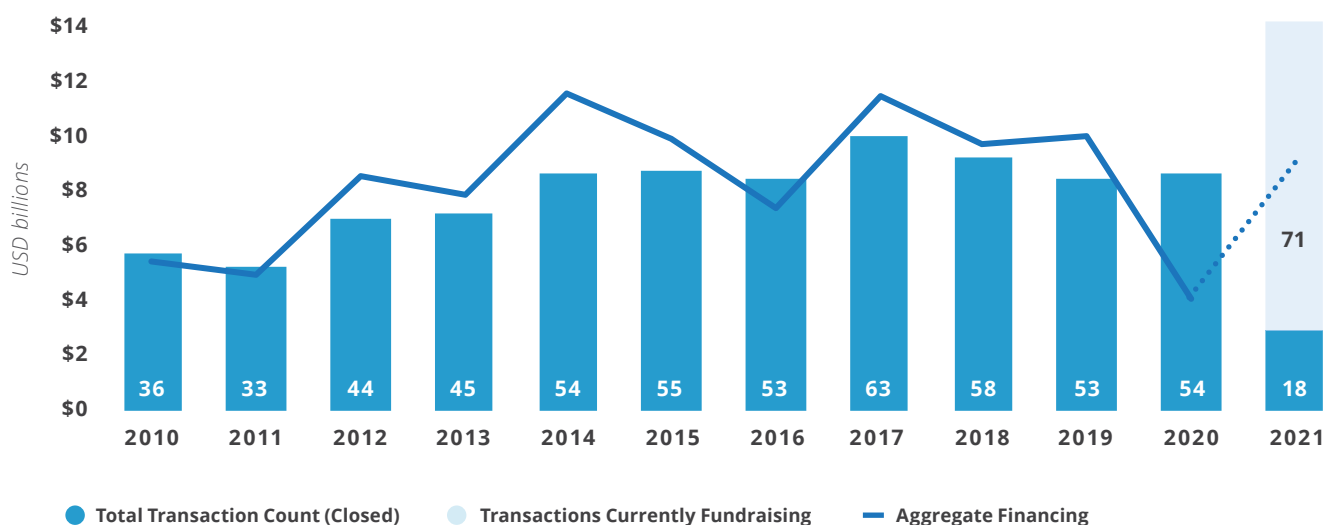
An aerial photograph of a city street intersection. The central focus is a tall, modern building with a distinctive white, vertically-slatted facade. To its left is a taller, brown brick building. The street below is busy with traffic, including cars and a bus. The text 'Part I Data Trends' is overlaid in large white font on the left side of the image.

Part I Data Trends

Deal Trends

Overall Market

FIGURE 3 OVERALL BLENDED FINANCE MARKET (2010 TO SEPTEMBER 2021)



This report surveys nearly 680 closed blended finance transactions, capturing over 5300 individual investments disbursed by over 1450 unique investors. To date, aggregate blended finance flows have totaled just over \$160 billion, with annual capital flows averaging approximately \$9 billion since 2015. The blended finance market has experienced a steady annual deal count over this period, averaging 55 closed transactions per year. The preliminary transactions count for blended deals launched in the first half of 2021 is 18.

Like the rest of the global financial system, the blended finance market was impacted by the unprecedented effects of the COVID-19 pandemic. The [World Investment Report \(WIR\) 2021](#) found that

global flows of foreign direct investment (FDI) fell by one-third to \$1 trillion, well below the low point reached after the global financial crisis a decade ago. While the contraction was more acutely felt in developed economies, the International Monetary Fund (IMF) predicts that the FDI slump will be more prolonged in emerging markets. Although the number of blended transactions closed in 2020 follows annual market trends, blended finance flows were significantly lower compared to historical financing trends (~\$4.5 billion in 2020, 50% less compared to 2019). This trend could be due to several factors, including donors and private investors pivoting to protect and provide pandemic-related relief to their existing programs and portfolios. For many, this has diverted resources

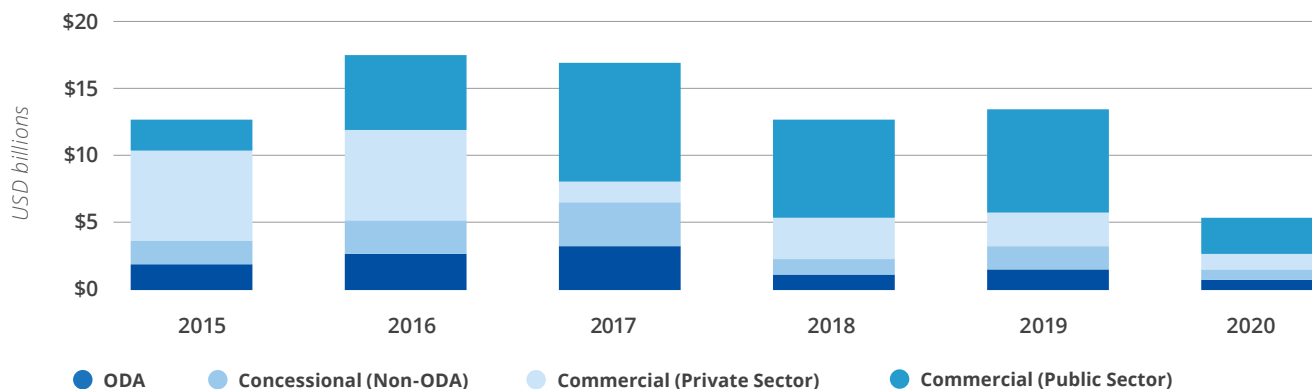
away from funding new opportunities. According to the WIR, the number of greenfield projects launched in 2020 fell by about 42% in developing countries. In addition, it is likely that fund managers and deal sponsors have postponed or reduced target fundraises for 2020, choosing instead to hold a smaller close with the aim of renewing fundraising efforts once markets have stabilized and investor appetite has resumed. This might explain why Convergence has captured a similar number of transactions, but overall financing flows are lower. Indeed, the median overall deal size for blended transactions in 2020 was \$30 million, compared to \$49.5 million in 2019, and \$77.7 million in 2018, respectively. Other factors could include an increased perception of risk associated with emerging markets in light of the pandemic, as well as logistical barriers due to travel restrictions.

While preliminary figures from the Organisation for Economic Co-operation and Development (OECD) show that Official Development Assistance (ODA) flows increased to their highest level on record in 2020 (\$161.2 billion), these donor capital flows were mostly directed in the form of traditional aid. For example, in 2021, \$1.3 billion of ODA was reported as Private Sector Instruments (PSI), representing

under 1% of total ODA. This compares to 2.2% in 2019, and 1.7% in 2018. Our analysis finds similar conclusions, revealing that public concessional funding channeled towards blended finance transactions was less than 50% of volumes in 2019 (\$0.7 billion in 2020, compared to \$1.3 billion in 2019).

With the Decade of Action already upon us, coupled with the real and long-term impacts of COVID-19 on global development, blended finance actors must do more to scale up financing. The provision of concessional finance has remained relatively unchanged year-on-year, including both ODA and other concessional funding types (including non-ODA donor funding and philanthropic capital). Concessional finance must be used more efficiently to mobilize private capital at scale. As expected, private sector financing towards blended finance transactions was lower than previous years, representing \$1.1 billion, compared to \$2.2 billion in 2019. Current levels of blended capital flows will not reach the “billions to trillions” in financing needed to achieve the SDGs by 2030. Part II and III of this report will reveal the top challenges to scaling blended finance, as identified by Convergence, followed by recommendations from leading stakeholders in the market.

FIGURE 4 SOURCES OF BLENDED FINANCE FLOWS⁴



⁴ ODA levels here are estimated based on provision of public concessional funding in the database that qualify as ODA instruments. Public concessional funding refers to non-ODA amounts (e.g., instruments such as guarantees and concessional funding provided by non-DAC members or philanthropic sources).

The effects of the pandemic on blended finance are clear when examining Convergence’s database of blended finance vehicles currently fundraising (“fundraising deals”). As with the [previous edition](#) of the State of Blended Finance, this year’s report encompasses Convergence’s in-house knowledge of blended transactions raising capital. This includes both deals that have reached an interim financial close and continue to raise successive funding rounds, and newly launched blended structures that are in advanced discussions with more than

one outside investor. Convergence is currently tracking 71 deals in its fundraising deal pipeline, representing over \$8 billion in aggregate blended capital. Of the 55 fundraising deals captured in last year’s report, 21% successfully closed in 2020 (30% of which targeted Latin America and the Caribbean). If this fundraising trajectory continues, Convergence expects to capture only ~33 deals in 2021, a marked drop from the annual average of ~55 transactions. Further trends in fundraising transactions will be explored below.

Deal Sizes and Types

Convergence’s database identifies six blended transaction types: (i) bonds / notes; (ii) companies (i.e., businesses as direct recipients of blended financing); (iii) facilities⁵; (iv) funds (i.e., debt and equity funds and funds-of-funds); (v) impact bonds (including development impact bonds and social impact incentive bonds (DIBs and SIINCs)); and (vi) projects. Funds continue to be the most common blended structure, comprising 35% of all transactions in 2020. Convergence has previously highlighted the [advantages of funds when it comes to achieving scale in blended finance](#): funds reduce investor risk exposure via diversification and are a familiar investment structure for private investors. Funds also exhibit larger transaction sizes compared to the market, thereby providing investment ticket sizes sought by large-scale institutional investors. Between 2018-20, the median blended fund size was ~\$94 million (compared to the market average of \$50 million). Given these advantages, Convergence anticipates that funds will continue to be the dominant structure within the blended finance market; our fundraising data shows that 65% of the vehicles seeking blended capital are funds, with a median size of \$100 million.

Private equity funds in particular have gained momentum. In 2020, 47% of all blended funds recorded were private equity vehicles, compared to 36% in 2018 (defined here as funds with primarily equity-based investment strategies). Recent research from the African Private Equity and Venture Capital Association (AVCA) for example, shows that [sustained macroeconomic growth in Sub-Saharan Africa over the last two decades](#) has catalyzed an enabling entrepreneurial ecosystem and is contributing to greater demand for equity financing among small- and medium-sized enterprises (SMEs). Blended vehicles are a part of the wider ongoing transformation of FDI in developing countries to better meet these capital needs. Recent examples include the [Novastar Ventures Africa Fund II \(NVAF II\)](#), a private equity fund that leveraged concessional commitments from public investors, including DFIs such as FMO and the European Investment Bank (EIB), to unlock over \$90 million in private sector financing for start-up and early-stage businesses in East Africa.

⁵ Convergence defines a blended facility as an earmarked allocation of public development resources (including funding sometimes provided by philanthropic sources) combined with private capital at the vehicle-level, for deployment towards a specific recipient or intervention. This also includes risk-sharing facilities, or bilateral transactions, typically between donor or public entities and financial intermediaries, where the concessional capital helps mitigate potential losses on underlying loans originated by the financial institution. A notable example of a blended facility is the CRAFT Project, a \$500 million blended structure that is comprised of two region-specific sub-facilities investing in climate change adaptation and resilience technologies.

Convergence also observes an increase in the number of blended companies and corporates. The proportion of company-level blended transactions captured by Convergence has steadily grown in recent years, representing over 37% of deals in 2020 (compared to 11% between 2015-17). Also, the median size of company transactions doubled in 2018-20 compared to 2015-17 (~\$20 million in 2018-20 vs. ~\$10 million in 2015-17). We note a positive correlation between the growth of company transactions and the growth of the agriculture sector in blended finance: 40% of all blended companies in 2019 and 2020 operated in the agriculture sector. Notable examples include [Sistema.bio](#), a Mexico-based social enterprise that sells biogas digesters to smallholder farmers, which break down animal waste into a source of renewable energy. Since its establishment in 2010, Sistema.bio has maintained a blended capital structure, attracting grants, concessional debt and equity, and private investments, to achieve international scale, including completing a bridge financing round in 2020.

Blended projects, the blended structure with the largest median transaction size, have grown in size in recent years (median size of \$130 million between 2018-20, up from ~\$107 million between 2015-17). However, they have declined by proportion of total transaction count since 2018 (19% of total transactions

in 2020 vs. 32% of transactions between 2015-17). The COVID-19 pandemic has exacerbated many of the challenges inherent in project finance, such as [prolonged and complex fundraises and under-financed pre-investment project preparation](#). In fact, only 16% of the fundraising project transactions captured in last year's report reached financial close in 2020. Looking forward, project developers in developing countries will also have to contend with growing public and private debt levels and the risk of sovereign credit downgrades, all of which will increase their cost of capital.

In last year's report, Convergence noted the increased prevalence of blended bonds / notes in recent years (particularly in 2018), including corporate issuances and green bonds. However, we have yet to see sustained growth in 2019 and 2020, with 2020 data showing only 6% of blended transactions in the form of bonds / notes. This might signal that fewer bonds / notes in emerging markets require concessional component(s) to attract private sector interest. For example, [recent findings from the International Finance Corporation \(IFC\)](#) reveal that investor appetites for green bonds in emerging markets were resilient in the face of the economic turmoil caused by the pandemic; in fact, the number of issuances increased by 21% from 2019.

FIGURE 5 PROPORTION OF CLOSED TRANSACTIONS BY VEHICLE TYPE

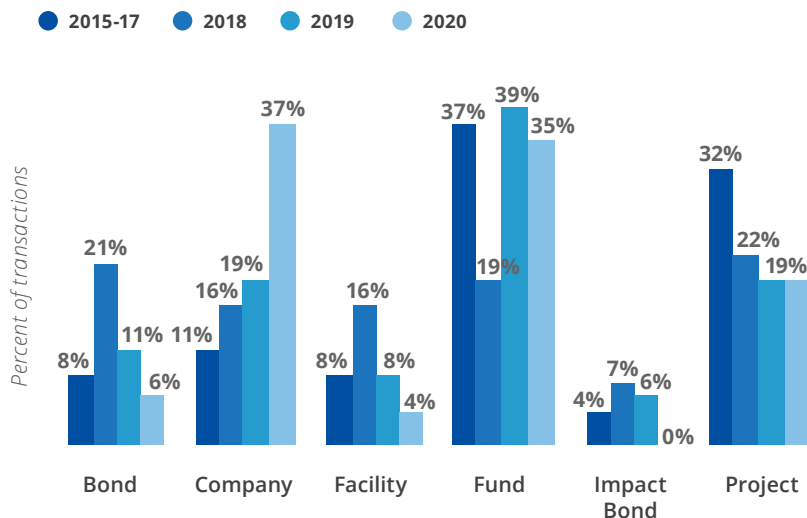
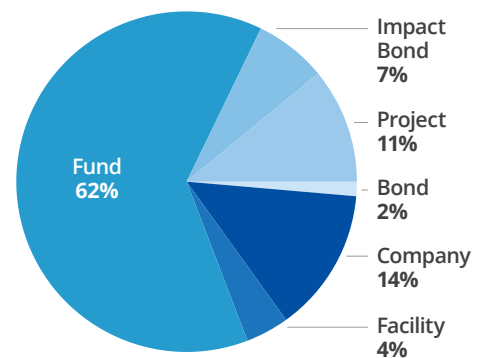


FIGURE 6 PROPORTION OF CLOSED TRANSACTIONS FUNDRAISING BY VEHICLE TYPE



Regions and Countries

Sub-Saharan Africa

Sub-Saharan Africa has historically represented the largest proportion of blended finance activity by region, on a transaction count basis, if not a dollar value basis. This trend has continued in recent years. Almost two-thirds (61%) of blended finance transactions in 2020 targeted Sub-Saharan Africa (SSA), a significant increase compared to previous years. Convergence believes this trend will likely persist, given that 45% of the fundraising transactions captured by Convergence are targeting the region, in part or in full. In line with market-wide trends, blended raises for companies and corporates in the region have increased in frequency in recent years (27% in 2018 to 40% in 2020), with a noticeable inclination towards agribusinesses; between 2018-20, an average of 27% of company-level deals in SSA involved financing enterprises across the agriculture value chain. Likewise, we also see company-level transactions in the region making up a larger portion of deals in the energy sector than in the past (58% of energy deals in SSA in 2020 were company transactions, up 30% from 2018). This coincides with a decline in the frequency of project transactions in the region, which have dropped from 18% of 2018 transactions to only 9% in 2020. As the emergence of venture capital in SSA orients blended finance more towards direct investments in start-ups and early-stage private businesses, this could result in smaller transactions sizes in the region relative to the overall market. In recent years, SSA-focused transactions had a median size of ~\$40 million, declining from ~\$60 million between 2015-17.

South Asia and East Asia and Pacific

As Convergence has previously [noted](#), Asia has emerged as an increasingly important destination for blended capital. In 2020, Asia (i.e., East Asia and the Pacific and South Asia) accounted for 36% of blended transactions. Examining the data further reveals an uptick in both funds (8% of regional transactions in 2018 vs. 33% in 2020) and companies (increasing from 18% of regional transactions in 2018 to 28% in 2020). The data aligns closely with the results from the OECD's 2020 Funds and Facilities Survey, which found that 36% of blended vehicles had a geographic focus that included Asia. Looking forward, the mid- to long-term effects of the pandemic will likely have large implications for the evolution of blended finance in the region given its growing prominence. The WIR noted that by the end of 2020, FDI inflows in Southeast Asia, typically a driver of continental economic growth, had contracted by 25% - only Latin America and the Caribbean experienced a more severe contraction (45% reduction in FDI inflows in 2020). [While investment levels in South Asia were buoyed by a strong merger and acquisition market in India](#), uncertainties surrounding the outlook for the pandemic could lead to a reversal in the market. The ripple effect of slowed export-driven industries in the region, particularly manufacturing, is likely to be felt in the blended finance market in the years to come.

Latin America and the Caribbean

Convergence noted in last year’s report that 35% of transactions in its fundraising pipeline had investment mandates focused on Latin America and the Caribbean (LAC), signaling renewed interest in the region. Nearly 50% of these deals reached financial close in 2020, resulting in an increase in market activity in the region compared to previous years (17% of transactions targeted LAC in 2020). LAC remains an area of interest for blended finance

practitioners; 15% of our fundraising deals target the region. However, given the sharp effects of the pandemic on Latin American and island economies, it will be particularly interesting to monitor how blended finance proponents navigate the new market conditions. Our analysis of the LAC region is caveated by the fact that there is limited publicly available information compared to other regions, with an outsized proportion of data sourced from a few multilateral banks such as IDB.

FIGURE 7 PROPORTION OF CLOSED TRANSACTIONS BY REGION

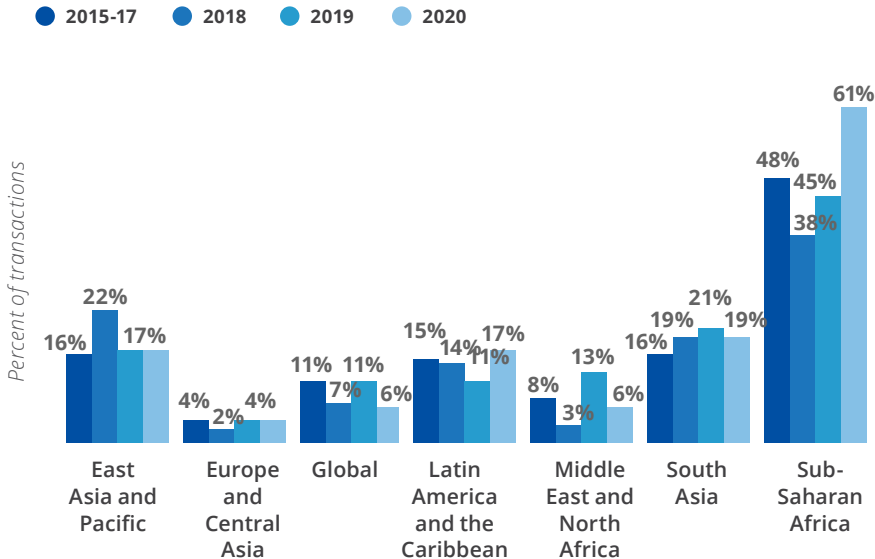
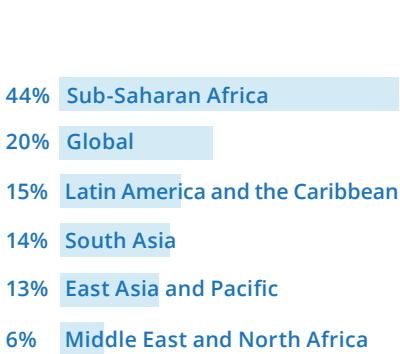


FIGURE 8 PROPORTION OF TRANSACTIONS CURRENTLY FUNDRAISING BY REGION



Country Recipients

Kenya continues to be the most frequent recipient country of blended capital in recent years (32 transactions between 2018-2020), in line with

historical trends. As noted in last year’s report, this can be attributed to a number of [factors](#), including an enabling policy framework for private sector investment and a range of geographical and logistical advantages.

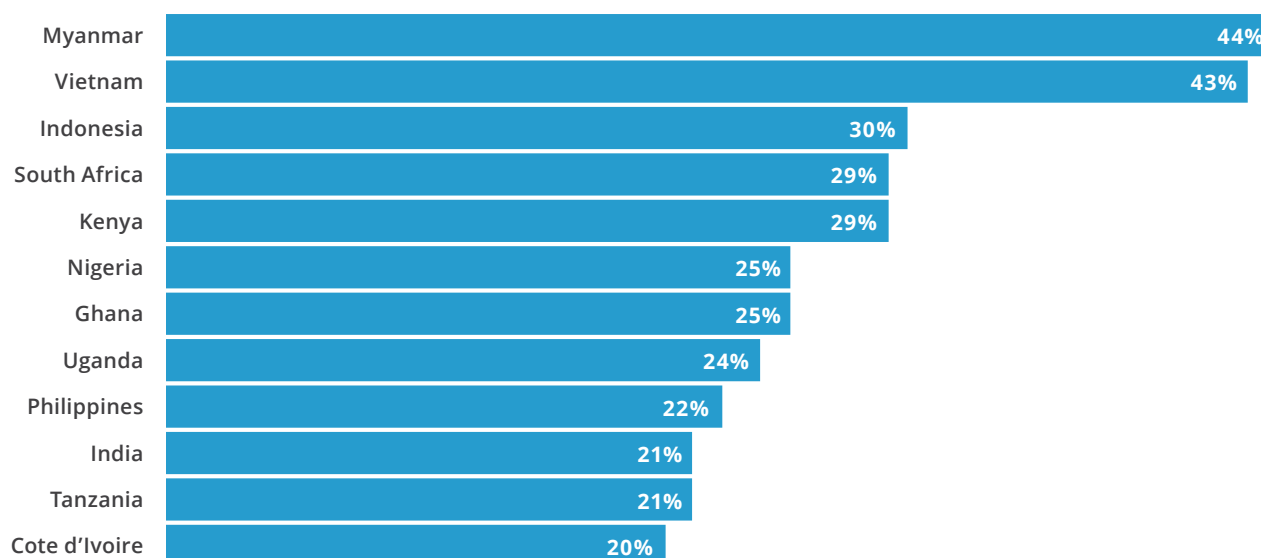
FIGURE 9 TOP COUNTRIES FOR BLENDED FINANCE, BY NUMBER OF TRANSACTIONS (2018-20)

Kenya 32	India 18	Uganda 18	Nigeria 16	Tanzania 13	South Africa 11	Vietnam 10
			Ghana 15	Indonesia 11	Ethiopia 9	Myanmar 8

As noted previously, there has been an uptick in blended finance activity in countries in the East Asia and Pacific region; especially in Vietnam, Myanmar and Indonesia. Since 2018, all three countries have been targeted by 30% or more of blended transactions, and all are present in the top ten league table over that timespan (with 8, 11, and 10 transactions, respectively). Notable transactions include [Bayfront Infrastructure Capital's \\$455 million warehousing facility](#), a securitization program bundling infrastructure loans originated in Vietnam and Indonesia, backed by a guarantee from the Singapore Ministry of Finance. Other examples include the [Indonesia Resilience Fund \(IRF\)](#),

launched in 2020 to support Indonesia's healthcare sector in response to the COVID-19 pandemic. The Fund, which achieved first close in 2021, is supported by several public investors, including the United States Agency for International Development (USAID), the United States International Development Finance Corporation (DFC), and the Australian Department of Foreign Affairs and Trade (DFAT), as well as private investors. However, with investments in Myanmar paused as a result of the civil unrest in the country, we expect that blended finance activity in this country will not be sustained at current rates.

FIGURE 10 TOP COUNTRIES FOR BLENDED FINANCE: PROPORTION OF DEALS BY TARGET COUNTRY LAUNCHED BETWEEN 2018-2020



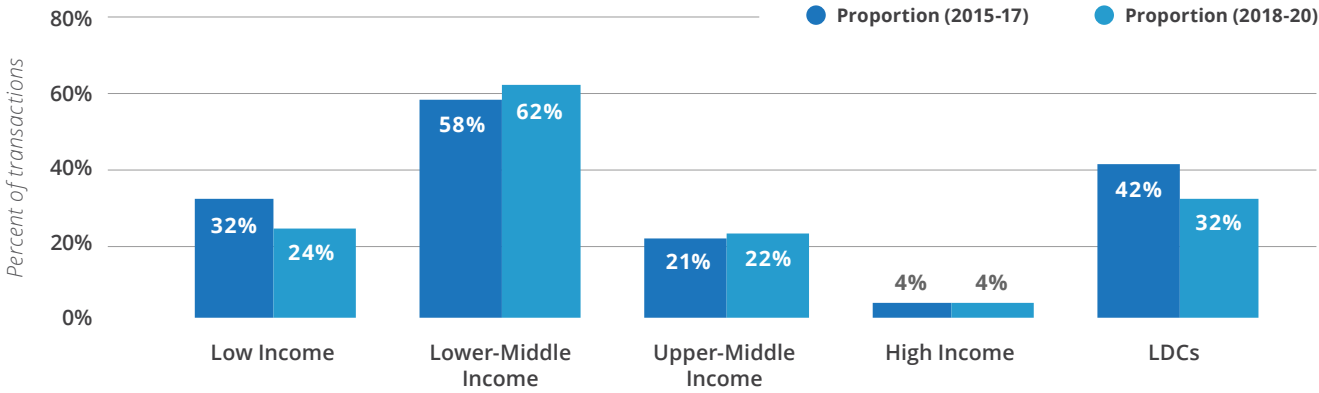
The participation of special purpose financial intermediaries like GuarantCo and InfraCo Asia (both subsidiaries of the PIDG Group of companies) are common in transactions in Vietnam, Myanmar, and Indonesia, signaling their role in growing the presence of blended finance in new markets. One such example is the financing of [Kacific Broadband Satellites International](#), a provider of high-speed broadband internet to clients in East Asia and the Pacific Islands. GuarantCo extended a \$50 million partial, credit-enhancing guarantee to Kacific, enabling it to secure a \$222 million senior debt facility, co-financed by the Asian Development Bank (ADB) and a European institutional investor.

Income Level

Lower-middle income countries continue to receive the bulk of blended capital flows in recent years; 62% between 2018-20. Conversely, blended investments in low-income countries have decreased proportionally, representing 24% of total aggregate financing in 2018-20, compared to 32% between 2015-17.

In recent years, the proportion of blended transactions that target at least one least-developed country (LDC) has also declined, representing 32% of deals between 2018-20. Challenges arise when applying blended finance in LDC contexts, in part due to the relative scarcity of both concessional capital and appetite from commercial investors. Findings from the [OECD and UNCDF](#) reinforce this narrative, revealing that only 7.5% of financing mobilized by blended finance in 2018 was directed towards LDCs. Convergence believes that traditional ODA has a key role to play in LDCs and vulnerable states, where support for basic needs and key sectors (i.e., health) is a top priority. Convergence advocates for small allocations of ODA to be deployed to blended finance transactions, where there are opportunities for LDCs to attract private investment. This can also be achieved using portfolio approaches, whereby higher risk investments can be aggregated alongside lower risk investments in middle income countries, thereby offsetting risks through diversification.

FIGURE 11 PROPORTION OF CLOSED TRANSACTIONS BY RECIPIENT COUNTRY INCOME LEVEL



Sectors and Sub-Sectors

Agriculture and Energy

In line with early signals from last year's report, blended finance in the agriculture sector has risen. Agriculture focused transactions comprised 28% of 2020 deals, compared to 16% between 2015-17. Investment into agribusinesses is driving these growing capital flows, especially in firms focused on agricultural inputs (accounting for 55% of agriculture deals since 2018). [Recent analysis by Convergence](#) also highlighted that the agriculture value chain is experiencing increased pressure to improve sustainability and become more responsive to the effects of climate change, thereby fueling the demand for capital.

Despite the increase in deal count, the median size of agriculture transactions launched between 2018-20 fell to ~\$30 million, ~\$5 million lower than the median transaction size between 2015-17. This is consistent with blended finance trends generally, as median deal sizes fell across the board between 2018-20 (the median deal size across all sectors fell, on average, by ~\$40 million compared to 2015-17). The energy sector, which remains the most active sector for blended finance, witnessed a decrease in median deal size to \$63 million between 2018-20, from \$110 million between 2015-17. While this is partially due to a decline in aggregate blended financing in the past year, this is also reflective of the uptake of new renewable energy asset types, such as off-grid energy systems and mini-hydroelectric dams, which tend to be smaller in size. One example here includes the \$39.4 million [Xoxocotla](#) solar plant, a 70MW facility in Mexico that closed in 2020, and attracted \$8.3 million in senior debt financing from the Japanese commercial bank, Mitsubishi UFJ Financial Group, following concessional support from two donor capital pools, the Canadian Climate Fund for the Private Sector in the Americas and the China Fund for the Co-financing of the Americas. Renewable energy assets are becoming

more commonplace in the portfolios of many institutional investor types, especially for assets based in middle-income countries. This market evolution and growing track record may be reducing the need for risk mitigation and credit enhancement in larger renewable energy deals, thus diminishing the need for blended finance in the sector.

Financial Services

Deals in the financial services sector have exhibited a similar graduation effect to those in the energy sector. Financial services transactions have made up a steady proportion of the overall market since 2018, averaging about 25% of transactions between 2018-20, yet total financing flows mobilized to the sector have been in decline (~\$45 million median deal size between 2018-20 vs. ~\$71 million between 2015-17), suggesting a reduced need to use blended finance to mobilize private capital flows to more traditional opportunities in the sector, such as investing via financial institutions. Instead, Convergence's database shows that smaller-sized transactions focused on expanding financial inclusion are a rapidly growing segment of the sector, with many taking the form of direct financing to microfinance institutions or small businesses providing specialized financial services and products to specific groups. For example, [Babban Gona](#), a social enterprise that seeks to improve access to credit and insurance products for smallholder farmers in Nigeria, raised ~\$30 million in financing from public, private, and philanthropic sources, supported by a technical assistance package from USAID.

Health and Education

2020 saw modest increases in the application of blended finance in the social finance sectors (health and education). This includes, for example, blended structures launched to support the healthcare sector

in response to the COVID-19 pandemic, including the aforementioned Indonesia Resilience Fund. Other examples include BlueOrchard's [COVID-19 Emerging and Frontier Markets MSME Support Fund](#), which achieved a second close of \$200 million, backed by a range of public investors, including IDB Invest, CDC, DFC, the Japan International Cooperation Agency (JICA), as well as private investors. The Fund is also accompanied by a technical assistance facility. As noted in previous reports, blended finance is less deployed in the health and education sectors given the less obvious financial returns pathways for commercial investors and a prevailing view that health and education delivery are the domain of public entities. Restricted FDI flows in 2020 also likely capped the growth experienced in the two sectors, as private investors were less willing to invest in less commercial sectors, particularly given the innovative and resource intensive transaction

structures typically required in health and education financing (like Development Impact Bonds (DIBs) and Social Impact Bonds (SIBs)). This is reinforced by our fundraising data: while education and health deals made up 18% and 19% of the fundraising pipeline respectively last year, just 10% of deals targeting either sector secured a financial close in 2020. With ~20% of health and education-focused transactions in our current fundraising pipeline structured as DIBs or SIBs, Convergence believes that alternative blended structures, including [health focused funds like the TEAMFund](#), could more rapidly scale the outcomes already achieved by impact bonds and boost capital flows to these sectors. The TEAMFund combines a for-profit fund structure, backed by medtech players and pharmaceutical multinationals, with a philanthropic, concessional pool of capital, funded in part by the fund sponsor, to deliver capital to health companies focused on non-communicable diseases.

FIGURE 12 PROPORTION OF CLOSED TRANSACTIONS BY SECTOR

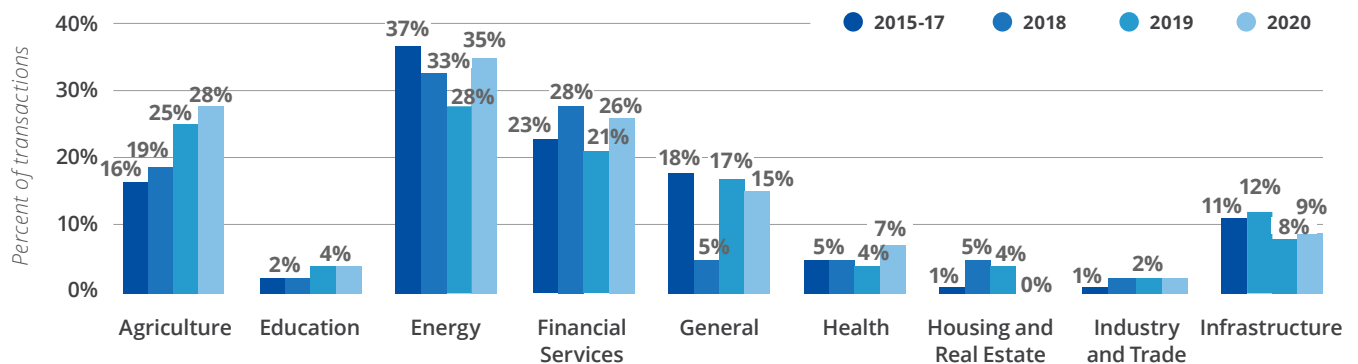
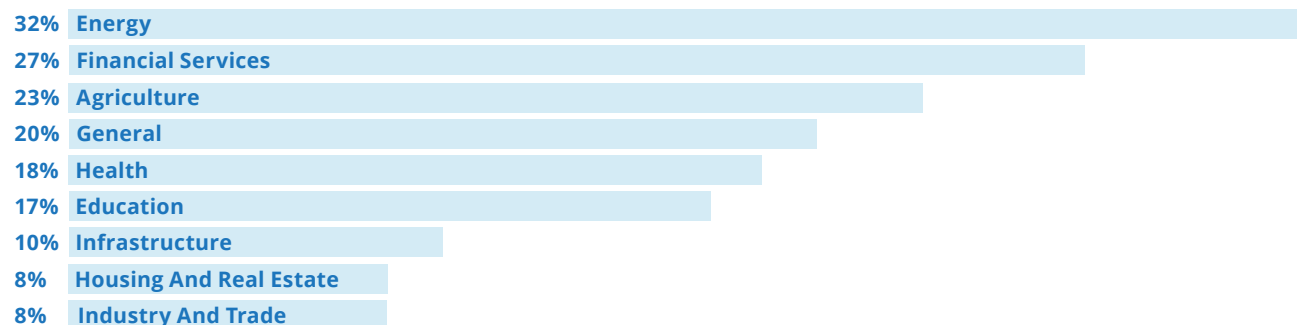


FIGURE 13 PROPORTION OF TRANSACTIONS CURRENTLY FUNDRAISING BY SECTOR



Blending Approaches

Convergence categorizes blended finance transactions into [four commonly used archetypes](#): (i) public and/or philanthropic investors providing capital on below-market terms into a transaction's capital stack, thereby enhancing its credit profile or adding loss protection to the benefit of more senior investors (typically called "concessional debt or equity", or grant funding); (ii) public and/or philanthropic investors extending partial or full guarantees or insurance instruments on below-market terms to enhance the credit profile of a transaction and/or mitigate specific risks (i.e. currency risk, political risk); (iii) project design, preparation and structuring activities being grant-funded to ensure and accelerate transaction launch (i.e. "design-stage grants"); and (iv) a transaction being linked with a grant-funded technical assistance (TA) facility, used to finance pre-investment (business design), post-investment (personnel training) and cost-of-investment (legal structuring fees) activities to improve the bankability of a transaction. We discuss these archetypes in more detail below.

Concessional Debt and Equity

Concessional debt and equity continue to be the most prominent blending archetype. In 2020, the use of this archetype reached a historical high, accounting for 85% of all deals. This may reflect the general increase in global investment risk as the pandemic set in. In blended finance, increased risk would lead to lower leverage ratios, or more dollars

of catalytic funding being needed to draw in a dollar of commercial money, all else being equal. Since 2018, blended funds have comprised over a third of the transactions deploying concessional debt and equity, with the below-market capital acting as a risk-absorption layer for senior investors.

Guarantees and Risk Insurance

Convergence has often [argued](#) that guarantees and risk insurance instruments (guarantees refer to both funded and unfunded instruments⁶) serve a key function in the blended finance market. Guarantees have the potential to mobilize sizeable quantities of private capital; they allow providers to maximize their balance sheets; and can be adapted to address specific risks. In 2020, however, guarantees were used in only 19% of the blended transactions captured by Convergence, a significant decline from 35% in 2018. Also, since 2018, the median size of transactions with guarantees fell by over 50%, to a deal size of ~\$50 million. [In a recent report by Convergence](#), one institutional investor respondent declared that guarantees are "an underutilized component of the multilateral toolkit", particularly given their liquidity benefits for donor investors. Our findings coincide closely with those of the OECD. [In a recent stock take of the use of guarantees in the blended market](#), the OECD noted that despite their mobilizing potential, guarantees have yet to be used systematically and have fallen short of scale. Likewise, the DFI Working Group's 2020 report on the use of blended concessional finance for private

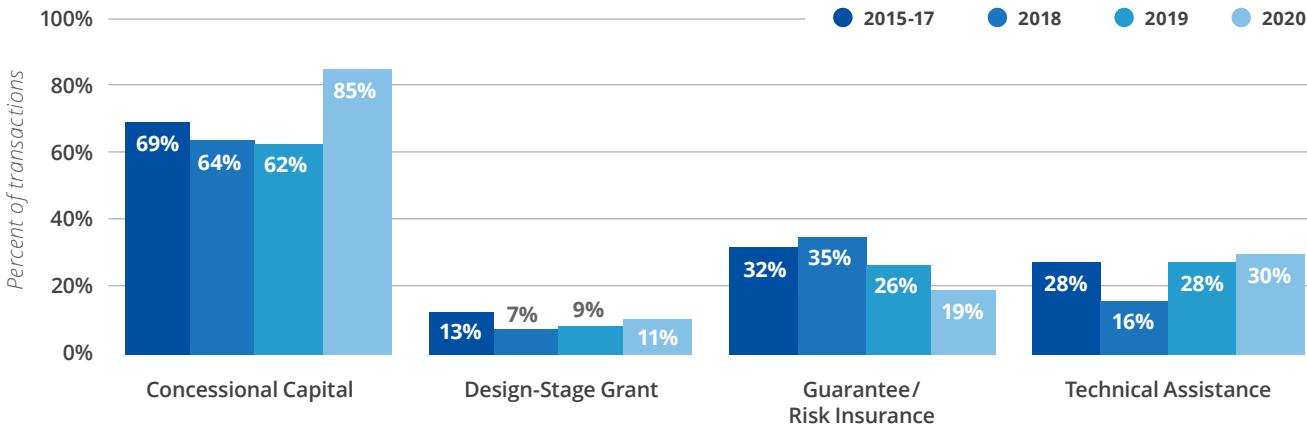
⁶ At issuance of a funded guarantee, a sizeable portion of the guarantee amount (at the discretion of the provider) is held in an escrow account over the lifetime of the instrument in the event that losses are realized by the applicant and the guarantee is called. In an unfunded guarantee, an amount equivalent to expected losses (determined by the provider) is held in reserve and then disbursed in the event of default. An important distinction to note is that funded guarantee schemes have a much greater impact on the balance sheets of providers because the deposit into the service or escrow account is treated as a traditional capital disbursement (debt, equity). In both cases, the guarantee fee charged by the provider is typically deposited into the reserve account to reduce the capital obligation of the provider.

sector projects noted that concessionally-priced guarantees [only accounted for 16% of the total concessional commitments made by DFIs in 2019](#). Convergence’s own historical data reveals that only a select few multilateral and bilateral development institutions regularly deploy guarantees. DFC⁷, USAID, and the Swedish international Development Cooperation Agency (SIDA), are the most common providers, with 29, 19, and 15 guarantee issuances to date, respectively. More ubiquitous guarantee use is hindered by several key challenges, including the fact that guarantees are not currently ODA eligible and are often considered complex to implement given the lack of pricing standardization across DFI and MDB providers, and because they introduce an additional instrument and third party into transaction negotiations. One way in which donor governments have circumvented the ODA restriction is through funding specialized intermediaries such as GuarantCo, who use donor capital to extend guarantees to deploy capital more efficiently.

Technical Assistance

The number of blended transactions featuring a TA component has remained relatively consistent since 2018. TA was integrated into 30% of transactions in 2020, yet from 2018-20, the ticket size of transactions involving a TA facility (TAF) declined (~\$39 million median size between 2018-20 vs. ~\$55 million between 2015-17). TAFs can be useful in providing comfort to new investors in sectors traditionally deemed high-risk, such as the agriculture sector, and can [create more bankable transactions at the pre-investment stage](#) (i.e., by improving Environmental Social and Governance (ESG) standards) to secure commercial investment. For example, the [Huruma Fund](#), a \$145 million blended private equity fund investing across the agriculture value chain, leverages a \$12 million TAF providing both pre- and post-investment technical support to investee companies.

FIGURE 14 PROPORTION OF CLOSED TRANSACTIONS BY BLENDING APPROACH



⁷This number includes guarantees extended by USAID’s Development Credit Authority (DCA) program, now run by DFC.

Beneficiaries

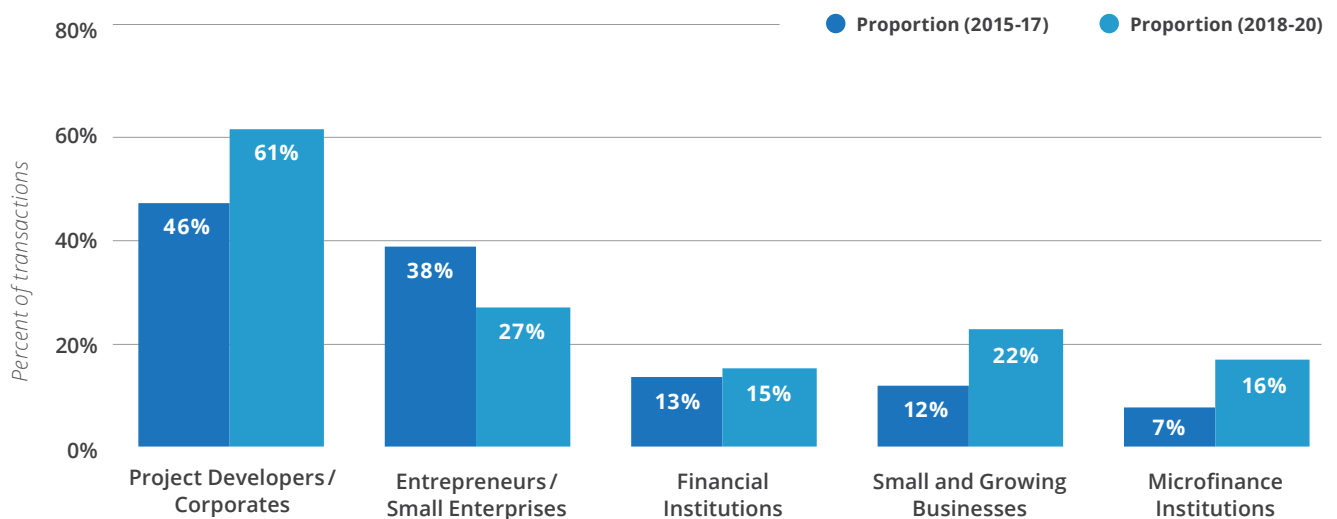
Direct Beneficiaries

Since 2015, project developers and corporates have been the most common direct beneficiary of blended capital. In recent years (2018-20), this group has represented an even larger share of direct beneficiaries, increasing to 61% of transactions. Project-type transactions are most closely aligned with project developer and corporate beneficiaries; accounting for 33% of deals between 2018-20, with nearly 50% taking place in the energy sector. But we also observe a growing number of company transactions involving this group (23% of transactions targeting project developers or corporates as direct beneficiaries between 2018-20). As previously mentioned, blended investment in the agriculture sector is driving the growth in company transactions. This is reflected in our beneficiary tracking as well; 25% of the deals targeting project developers and

corporates as direct beneficiaries between 2018-20 were in the agriculture sector, up from 17% in 2015-17.

Micro-, small-, and medium-sized businesses (MSMEs) and small and growing businesses (SGBs) also continue to be common direct beneficiaries of blended capital, with nearly 50% of all transactions between 2018-20 directly targeting one or both groups. Much of this capital is coming from blended funds, including both sector specific and sector agnostic vehicles (68% of deals targeting MSMEs or SGBs as direct beneficiaries between 2018-20 were funds). Looking ahead, Convergence anticipates that SMEs and SGBs will continue to absorb a significant portion of blended capital, given: i) the expanding venture capital and private equity ecosystems in Asia and SSA, and ii) the prioritization among both donors and private investors to keep small businesses afloat in the context of the COVID-19 pandemic.

FIGURE 15 PROPORTION OF CLOSED TRANSACTIONS BY DIRECT BENEFICIARY



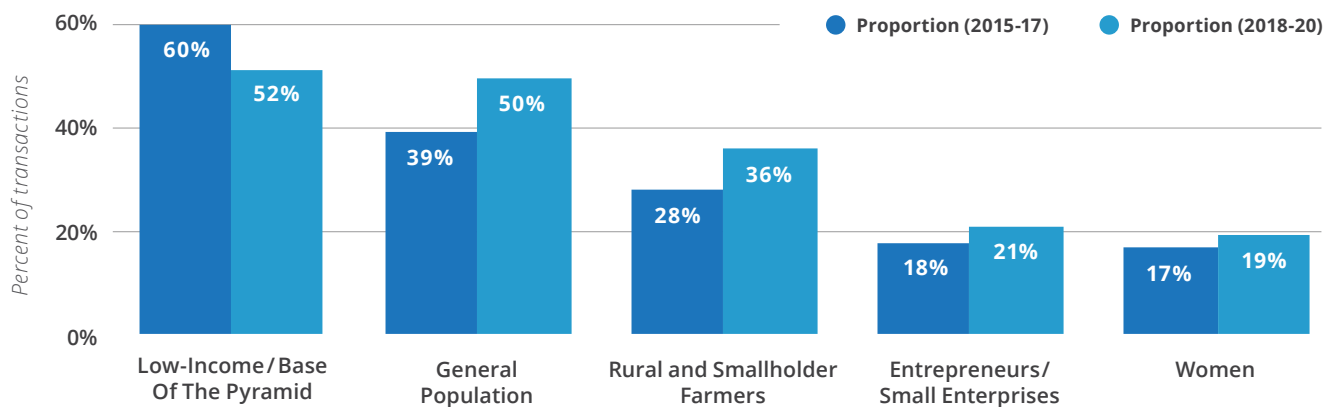
End Beneficiaries

Blended finance transactions most often target base-of-the-pyramid (BoP) populations as end beneficiaries⁸. However, in recent years (2018-20), BoP consumers have been targeted with declining frequency, accounting for 52% of transactions, compared to 60% between 2015-17. This coincides with the growing number of transactions in Convergence’s database focused on delivering wider development impact to the population at large: 50% of deals between 2018-20 targeted the general population vs. 39% in 2015-17. The prevalence of renewable energy transactions, including the increase in energy-exclusive funds, is partly behind this trend. The development impact of investing in renewable energy infrastructure assets is broad and aims to be inclusive. For example, the climate change mitigation outcomes of greenfield renewable energy construction serve entire populations. The targeting of rural populations and smallholder farmers is also becoming more common. Between 2018-20, this group was specified as an end beneficiary by 36% of transactions, up from 28% between 2015-17. While

24% of blended deals target the agriculture sector, the higher share of deals focused on rural and smallholder farmer beneficiaries (36% between 2018-20) is due to an uptick in transactions that target rural and remote communities more generally, often supporting the provision of essential services, like energy access, transportation, and supplying staple goods.

The proportion of blended finance transactions with a clear intention to support women and girls has remained stable in recent years. Notably however, 2020 saw the launch of two more women’s empowerment focused bonds by Impact Investment Exchange Asia (IIX): [IIX Women’s Livelihood Bond II](#) and [IIX Women’s Livelihood Bond III](#). Both issuances leveraged first-loss tranches to cumulatively raise over \$35 million in private sector funds, to be deployed to serve the capital needs of women business owners in East Asia. The close of two gender bonds in quick succession reveals private sector appetite for both innovative investment classes and intentional gender-lens opportunities. This underscores that the replication of successful transaction design is central to mobilizing more capital and achieving greater impact.

FIGURE 16 PROPORTION OF CLOSED TRANSACTIONS BY END BENEFICIARY



⁸ Convergence defines “base-of-the-pyramid” on an income-level basis, informed by The World Bank Group’s understanding and categorization of poverty. Convergence considers BoP populations as those who live on less than \$5 a day, including the extreme poor (<\$1.90 a day). Employment opportunities are typically temporary and generally performed in the informal market, leading to low income stability. Access to the basic necessities of life, like shelter, water and sanitation, and power, is limited or inadequate, with the extremely poor likely lacking access to essential services all together.

Sustainable Development Goals and Impact Measurement

FIGURE 17 SDG ALIGNMENT, PROPORTION OF CLOSED TRANSACTIONS BY SDG (2018-20)

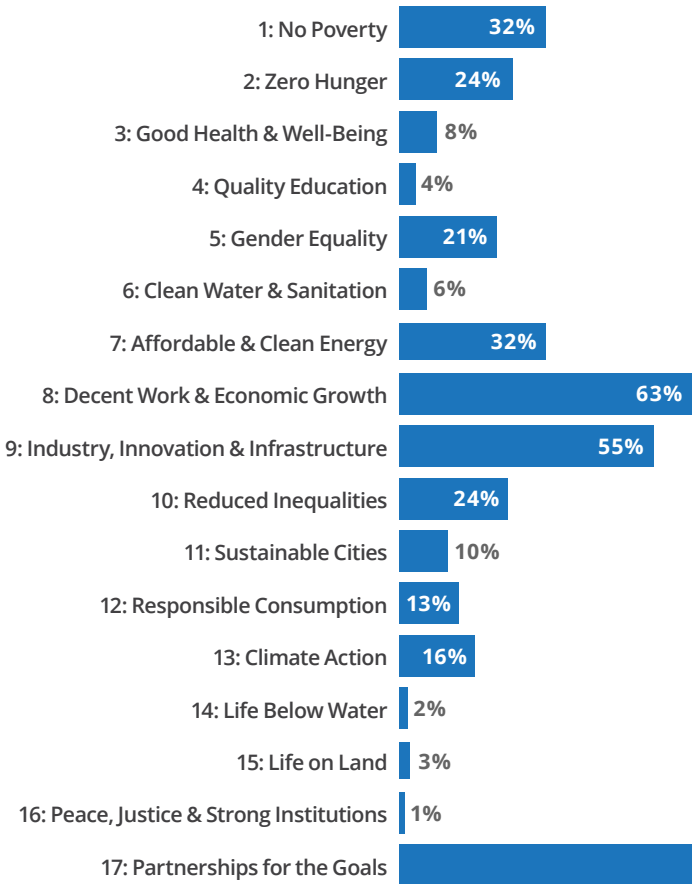
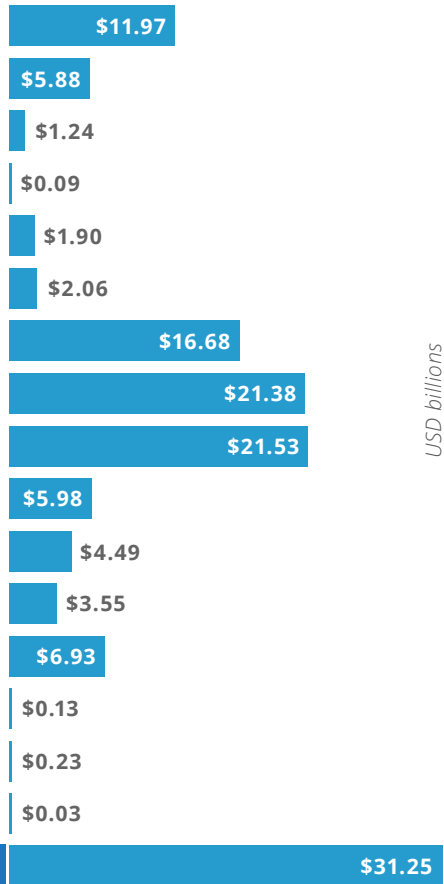


FIGURE 18 TOTAL FINANCING MOBILIZED TOWARDS THE SDGS (2018-20)



USD billions

SDG Alignment

Blended finance is best suited to the achievement of the sub-set of the SDGs that can generate commercial revenues. All deals captured by Convergence fulfill the objectives under Goal 17 (Partnerships for the Goals), particularly targets 17.1 (strengthen domestic resource mobilization) and 17.3 (additional financial resources). The

database also shows strong alignment with Goal 8 (Decent Work) and Goal 9 (Industry, Innovation and Infrastructure), highlighting the focus of blended finance on two sectors: financial services (which closely aligns with economic growth and job creation), and infrastructure (including both energy and non-energy). Convergence has also witnessed that since the inception of the SDGs in 2015, blended finance has mobilized more financing for the Goals during

the initial three years (2015-17) compared to the most recent period (2018-20); \$48 billion between 2015-17 vs. \$31 billion between 2018-20.

Convergence's historical deal database shows that since 2018, SDG alignment has been more precise across the board, indicating that transactions are less commonly targeting a plethora of SDGs at once. This is likely illustrative of a shift among deal originators in recent years to defining their impact mandates more precisely and aligning their impact outcomes with fewer SDGs.

However, one notable exception is Goal 2 (Zero Hunger), where financing has jumped in recent years (2018-20). In fact, over 66% of total capital committed to Goal 2 has been disbursed in the last three years, demonstrating the growing efficacy of blended finance as an attractive tool to improve the agriculture sector and expand food security in developing countries.

Blended finance also often targets climate outcomes. Convergence finds that about 50% of all transactions target SDGs incorporating a climate change component: Goal 7 (Affordable and Clean Energy), Goal 11 (Sustainable Cities), Goal 12 (Responsible Consumption), Goal 13 (Climate Action), Goal 14 (Life Below Water), and Goal 15 (Life on Land). These transactions have mobilized approximately \$105 billion in aggregate financing to date – with an average deal size greater than \$312 million – and span a wide range of thematic areas, including off-grid energy development, conservation finance, and climate-smart agriculture. Convergence expects climate finance to remain a primary destination for blended capital. This is affirmed by Convergence's fundraising data, where nearly 50% of transactions have an integrated climate focus.

Impact Reporting and Metrics

It is widely acknowledged that in the absence of sufficient, accessible, and comparable data from

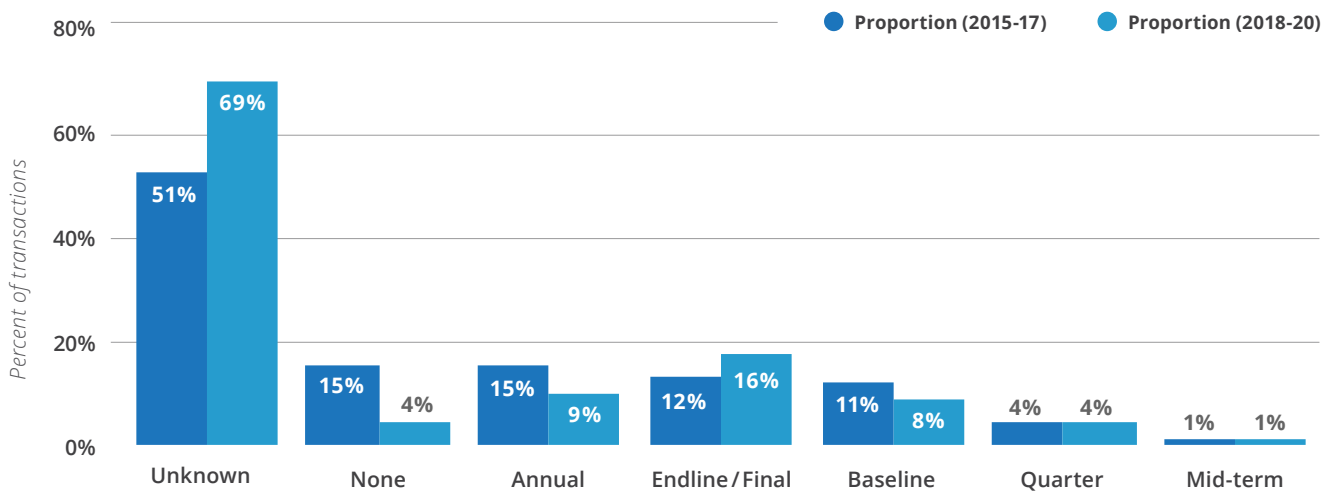
all stakeholders, efforts to scale blended finance will be stunted. Sparse and inconsistent data disclosure breeds stakeholder skepticism. This undermines market accuracy by preventing the establishment of agreed upon market benchmarks. Financial benchmarks, particularly when it comes to right-sizing and pricing risk-bearing concessional instruments, are fundamental to attracting more donors to the market because they bring clarity to investment structuring and outcomes. However, Convergence's data is devoid of any evidence of a donor or public entity that routinely discloses such details. [Recent findings](#) from a study by Publish What You Fund concluded that public investors, particularly DFIs, still exhibit low levels of transparency. DFI disclosures on investment amounts, instrument concessionalities, direct mobilization figures, and impact generated are limited and piecemeal. Understanding investing motives and tracking their outcomes becomes murkier still when public institutions invest via financial intermediaries.

Convergence's data underscores the magnitude of the current information disclosure gap. For almost 70% of transactions launched between 2018-20 and recorded in our database, Convergence was unable to identify a public-facing impact reporting methodology (although impact reports may be provided exclusively to investors). This figure is up drastically from 2015-17 (51%). Engendering a sense of trust in the market is particularly important for private investors, many of whom are new entrants to the blended finance space and lack in-house impact monitoring expertise and capacity. While efforts to improve disclosure procedures will be subject to relevant accounting principles, national policy, and in the case of tracking sub-investments, the confidentiality standards of partner financial institutions, steps can be taken to systematize a baseline of investment disclosure, including at a minimum, the widespread adoption of globally accepted principles, like the [Equator Principles](#) and the [UN Principles of Responsible Investment](#). IFC is one example of an institution making progress in the

area. The DFI created a disclosure guidance framework that includes investing thresholds and definitions, to give co-financiers a better idea of what types of development impact can be expected from underlying projects.

Where Convergence identified a reporting methodology, end-line/final assessments were found to be the most common (16% of transactions in 2018-20). Between 2015-17, reporting on an annual basis was most preferred among blended transactions (15%), but has since tapered off (9% in 2018-20).

FIGURE 19 PROPORTION OF TRANSACTIONS BY IMPACT REPORTING METHODOLOGY

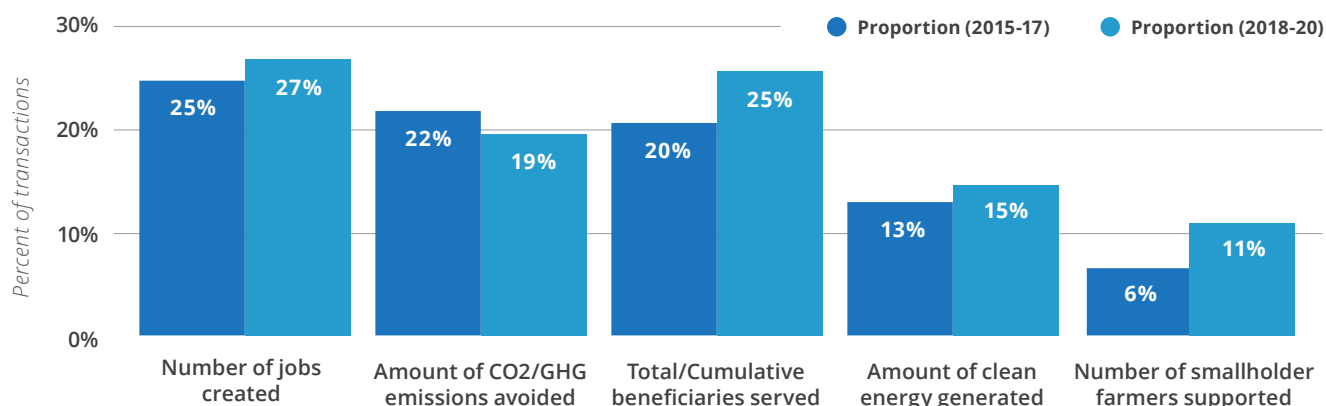


“Number of jobs created” was the most frequently used metric to quantify the downstream impact of blended transactions, present in 27% of deals between 2018-20. This was closely followed by “Total/cumulative beneficiaries served”, present in 25% of deals. As sector agnostic indicators, these metrics typically enjoy wide applicability given their relative ease of collection and comparability. However, these metrics are less able to capture the nuance of how development activities are experienced differently across socioeconomic groups. In line with the increased focus on agriculture in blended finance,

Convergence has observed a noticeable uptick in the use of metrics centered on rural and farming activities. In fact, the five smallholder-focused metrics that Convergence tracks cumulatively rose in frequency by 15% over the course of 2018-20⁹. Metrics specific to the renewable energy sector have also experienced increased use since 2018 (“Amount of Co2/GHG emissions avoided”, 19%; “Amount of clean energy generated”, 15%; “Increased access to clean energy”, 8%), reaffirming blended finance’s growing presence in climate financing.

⁹ Rural/smallholder farmer-based impact metrics tracked by Convergence: “number of smallholder farmers supported”; “number of smallholder farmers provided with X service”; “% increase in agricultural productivity”; “% increase in farmer income”; “number of smallholder farmers with access to X service”

FIGURE 20 PROPORTION OF TRANSACTIONS BY IMPACT METRICS EMPLOYED



The Blended Finance – Gender Nexus

Convergence’s data also reveals that the blended finance – gender nexus is yet to achieve scale. Tracking data on a gender-disaggregated basis is a structural component of gender-aware investing and a basic first step towards establishing investing norms that uphold gender-equity. Convergence’s database shows that since 2018, the proportion of deals collecting gender-disaggregated data stands at 20%, which is less than the 30% recorded between 2015-17. Moreover, few transactions since 2018 have had an explicit mandate to deliver benefits for women. Analysis conducted by Convergence found that less than 10% of deals launched between 2018-20 employed an “intentional gender-lens for impact” or were specifically designed to empower and support women beneficiaries. This coincides with the declining frequency of the “Total/cumulative women empowered” metric typically used in such transactions (5% of transactions in 2018-20 vs. 9% in 2015-17). In comparison, 15% were identified as integrating a gender-aware component, while 75% exhibited no gender-sensitive element at all.

According to our database, between 2018-20, transactions aligned with Goal 5 mobilized

~\$1.9 billion in total commitments, representing only 6% of total financing over that time span. Some promising investment models have arisen in recent years, which if replicated, could stimulate greater capital flows for gender outcomes: e.g., the [Women’s World Banking Capital Partners II Fund \(WWBCPII\)](#) mobilized ~\$50 million in commercial capital on the back of \$20 million in concessional first-loss equity to expand financial inclusion for low-income women. Together with an accompanying TAF, WWBCPII leverages a robust and publicly accessible gender strategy to ensure that the gender equity implications of its investing activities are maximized. To date, the Fund has reached over 150 thousand women.

Frameworks like the [2X Challenge](#), a collective commitment among DFIs to catalyze more investment for women, are also important tools to grow tailored financial support for women. Since 2018, 2X Challenge eligible transactions mobilized over \$4.5 billion – the blended finance market must become a larger part of this sum. As noted by GenderSmart, incorporating the tenets of such calls-to-action, like the 2X Challenge, into deal design, programming, and investing, yields tangible benefits for women, as well as enhanced returns and deepens other project-related impacts.

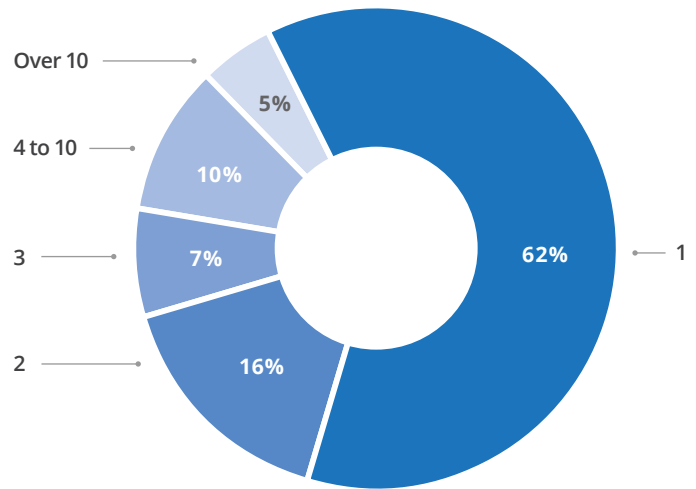
Investor Trends

Overall Landscape

According to Convergence’s database, over 5300 financial commitments have been made to blended transactions to date, with over 1450 unique organizations across the public, private, and philanthropic sectors having made financial commitments to at least one blended transaction. As Figure 21 shows, the use of blended finance as a tool by investors remains limited, with most organizations tending to participate in blended finance on a one-off basis; few organizations have made multiple commitments to blended transactions. Two-thirds have made only a single commitment to a blended transaction, while 22% have made three or more (and therefore can be classified as ‘active’ blended finance investors), with 10% of organizations having made four to 10 commitments, and 5% having made over 10. The institutions that have made the most commitments to blended transactions across all organizational types are the Dutch DFI FMO (245 commitments), IFC (232), and EIB (93).

MDBs and DFIs have consistently been the most prominent investor group in blended finance, accounting for 35% of the 1209 commitments made to transactions recorded for 2018-20, and 54% of the \$19.6 billion in aggregate financing provided to blended transactions over this period. While foundations and NGOs combined continue to account for the smallest proportion of commitments to blended transactions across all organization types, accounting for 10% of commitments in 2018-20, they

FIGURE 21 NUMBER OF COMMITMENTS TO BLENDED TRANSACTIONS BY UNIQUE ORGANIZATIONS, ALL YEARS



represent an outsized proportion of concessional investments in the context of their smaller role in blended finance, accounting for 17% of such commitments in 2018-2020, as shown by Figure 23. Similarly, while development agencies accounted for only 12% of commitments to blended transactions in 2018-20, they accounted for 37% of all concessional commitments during the same period, only slightly less than MDBs and DFIs (38%).

FIGURE 22 SOURCES OF COMMITMENTS TO BLENDED FINANCE TRANSACTIONS, BY PROPORTION

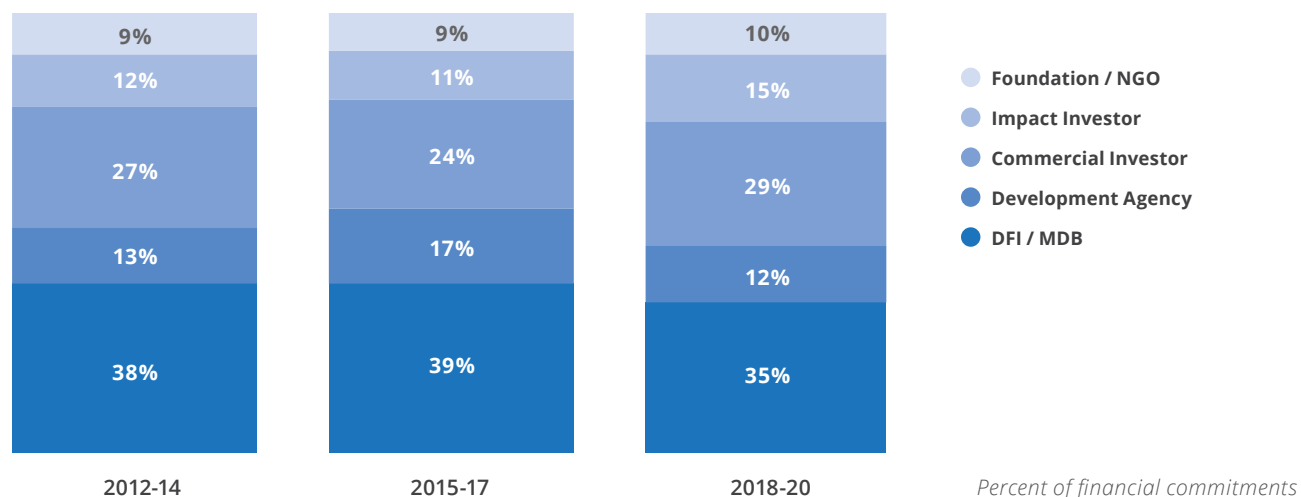
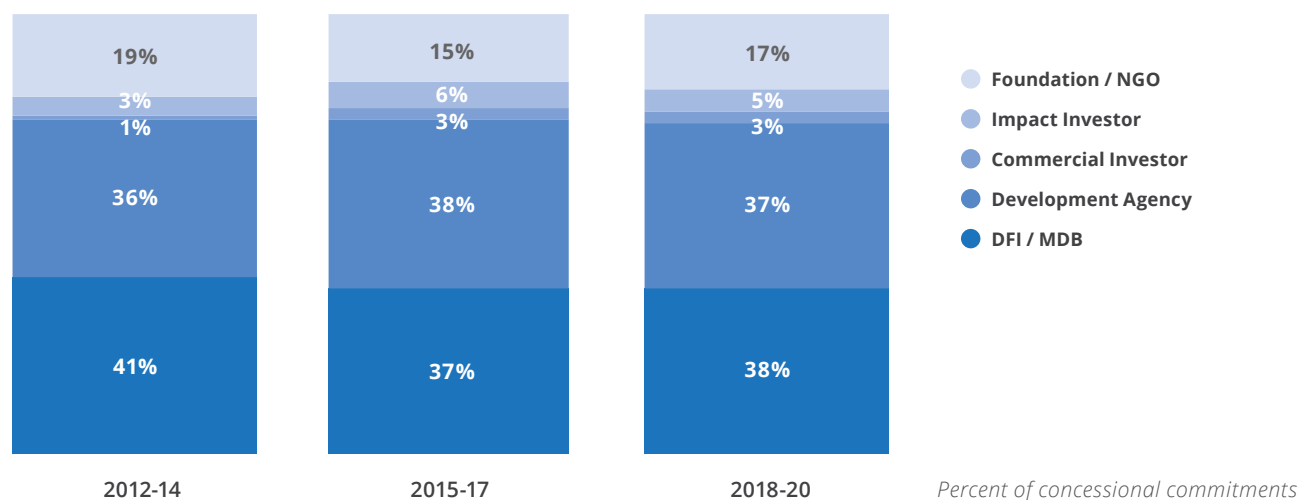


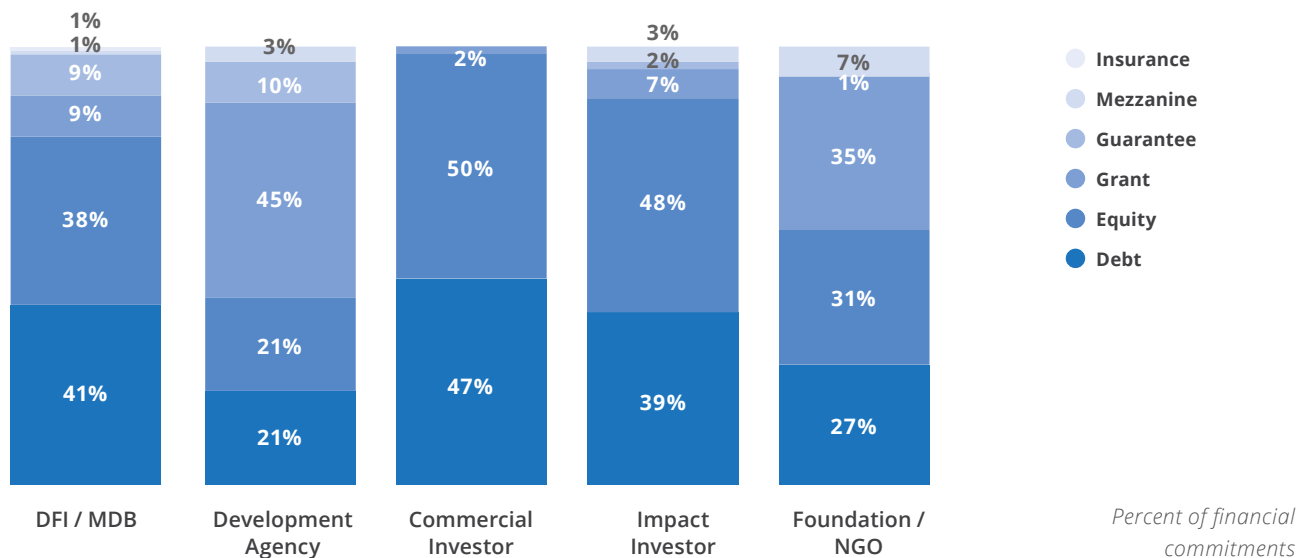
FIGURE 23 SOURCES OF CONCESSIONAL COMMITMENTS TO BLENDED FINANCE TRANSACTIONS, BY PROPORTION



Finally, Figure 24 provides a breakdown of the most common instruments deployed by different organizational types in their commitments to blended transactions. Debt and equity investments are predominant from commercial investors, MDBs and DFIs, and impact investors, while development agencies and foundations / NGOs also include grants in their instrument mix. Looking at the common providers of concessional finance to blended transactions from 2015-20, our dataset shows that

MDB and DFI concessional commitments tend to be in the form of technical assistance grants (23%), partial guarantees (20%), and subordinate debt (17%); for development agencies and multi-donor funds, technical assistance grants (31%), investment-stage grants (16%), and subordinate debt (13%), and for foundations and NGOs, investment stage grants (36%), technical assistance grants (18%), and design-stage grants (13%).

FIGURE 24 COMMITMENTS TO BLENDED TRANSACTIONS BY INSTRUMENT TYPE, 2015-20



Development Agencies

Development agencies and multi-donor funds have participated in 49% of all blended transactions since 2015 (and 52% across all years), providing funding to blended transactions both directly and indirectly through their contributions to multilateral organizations, MDBs, DFIs, funds, and programs. However, limited amounts of donor funding (relative to their overall budgets) are allocated to blended finance and private sector mobilization. For example, the OECD Development Assistance Committee (DAC) member countries collectively typically allocate around \$150 billion in official development assistance (ODA) to developing countries each year, allocating an all-time high of [\\$161.2 billion](#) in 2020 in the midst of the COVID-19 pandemic. However, only around 2-3% of ODA is allocated to blended finance annually.

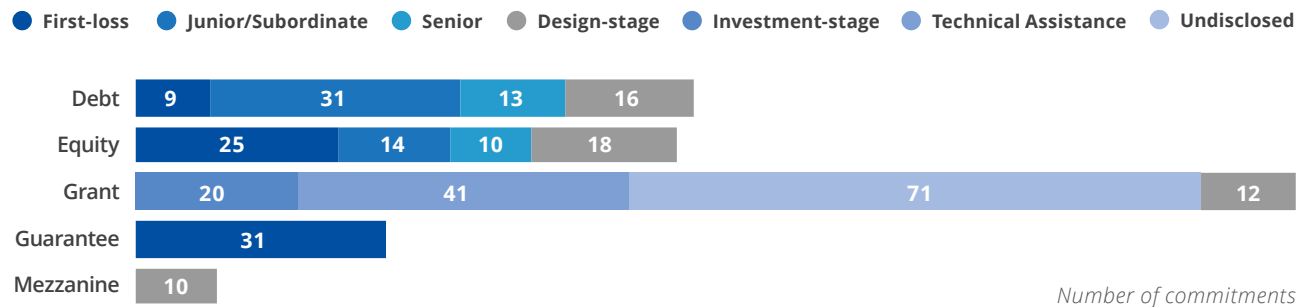
As Figure 24 shows, development agencies and multi-donor funds mostly deploy grants, accounting for 45% of their commitments from 2015-20, but also debt and equity, collectively accounting for 42%

of their commitments over the same period. Figure 25 provides more granularity; looking at commonly deployed sub-instruments, technical assistance grants (71 commitments in 2015-20), investment-stage grants (41), subordinate debt (31), and first-loss equity (25), are some of the more prominent sub-instruments deployed by development agencies and multi-donor funds. Overall, development agencies typically commit smaller amounts of funding (from 2015-20, median investment size of \$7 million vs. \$10 million for all investors). However, they tend to participate in larger transactions: from 2015-20, the median size of development agency-backed transactions was \$67.75 million, compared to \$55 million for the overall market. The larger deal sizes may reflect a propensity towards collective investment vehicles: funds constitute a plurality (39%) of transactions backed by development agencies from 2015-20, which is slightly higher than their proportion of transactions backed by all investors during this period (34%).

Finally, from 2015-20, 87% of development agencies' commitments to blended transactions were concessionally-priced (the remainder being

market-priced capital). This constituted 37% of the concessional commitments made by all investors to blended transactions during this period.

FIGURE 25 COMMITMENTS TO BLENDED TRANSACTIONS FROM DEVELOPMENT AGENCIES & MULTI-DONOR FUNDS BY SUB-INSTRUMENT, 2015-20



Convergence's historical deals database does not track the indirect commitments made by donors to blended transactions. The most prominent development agencies and multi-donor funds to participate directly in blended finance over the past five years have been USAID (25 commitments), German BMZ (25), Green Climate Fund (24), PIDG (14), and Swedish SIDA (11). Convergence has [previously noted](#) that donor governments have been likely to commit funding to blended transactions aligned to climate-focused SDGs like SDG 13 (Climate Action – since 2015, targeted by 20% of transactions backed by donors vs. 16% of transactions overall) and Goal 7 (Affordable & Clean Energy – since 2015, targeted by 43% of transactions backed by donors vs. 36% of transactions overall). In the context of the heightened urgency of achieving climate-related goals, development agencies and multi-donor funds are increasingly prioritizing climate action. For example, U.S. President Biden's [Executive Order of January 2021](#) called for the preparation of a Climate Finance Plan, which would see the US double its annual public climate finance to developing countries relative to the average level achieved during the second half of the Obama-Biden administration (FY 2013-16) by 2024. The mobilization of private capital will also be prioritized,

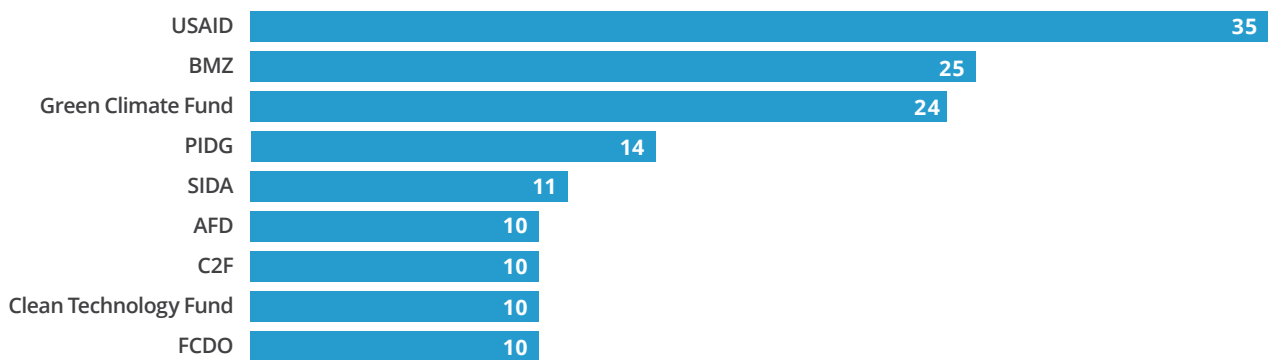
with the President's statement noting that agencies like the Millennium Challenge Corporation will boost their use of blended finance to catalyze private capital for climate projects. Elsewhere, the Australian Climate Finance Partnership (ACFP), a concessional financing facility [managed](#) by the Asian Development Bank (ADB) and funded by the Australian Department of Foreign Affairs and Trade (DFAT) through a grant contribution of up to AU\$140 million, publicly launched in March 2021. It looks to catalyze financing for private sector climate adaptation and mitigation projects in the Pacific and Southeast Asia, while also promoting gender equality and recovery from the COVID-19 pandemic. Similarly, in March 2021, the UK government [announced](#) the launch of the Mobilising Finance for Forests Programme, which will see the UK allocate up to GBP150 million across five to six investment funds operating in selected tropical forest regions in Africa, Asia, and Latin America, with the aim of supporting sustainable land-use projects, protecting rainforests, and reducing carbon emissions, while mobilising up to GBP850 million in private capital. Also, in February 2021, the UK government [launched](#) the first public competition in a series under the Mobilising Institutional Capital Through Listed Product Structures (MOBILIST) programme,

which would see participating financial institutions identify the best sustainable infrastructure product proposals that can list on the London Stock Exchange or on local exchanges, and thereby mobilises private investment in sustainable infrastructure in developing markets.

Elsewhere, SIDA [issued](#) its first guarantee of a privately funded social bond in June 2021,

committing to cover up to 25% of any overall loss for the ‘Financing for Healthier Lives’ bond, issued by a non-profit company backed by asset manager responsAbility. Alecta, Sweden’s largest pension fund, and Swedish company AFA Insurance have invested in the bond, which will fund health, financial inclusion, and renewable energy projects in emerging markets.

FIGURE 26 TOP DEVELOPMENT AGENCIES AND MULTI-DONOR FUNDS IN BLENDED FINANCE BY NUMBER OF COMMITMENTS (2015-20)

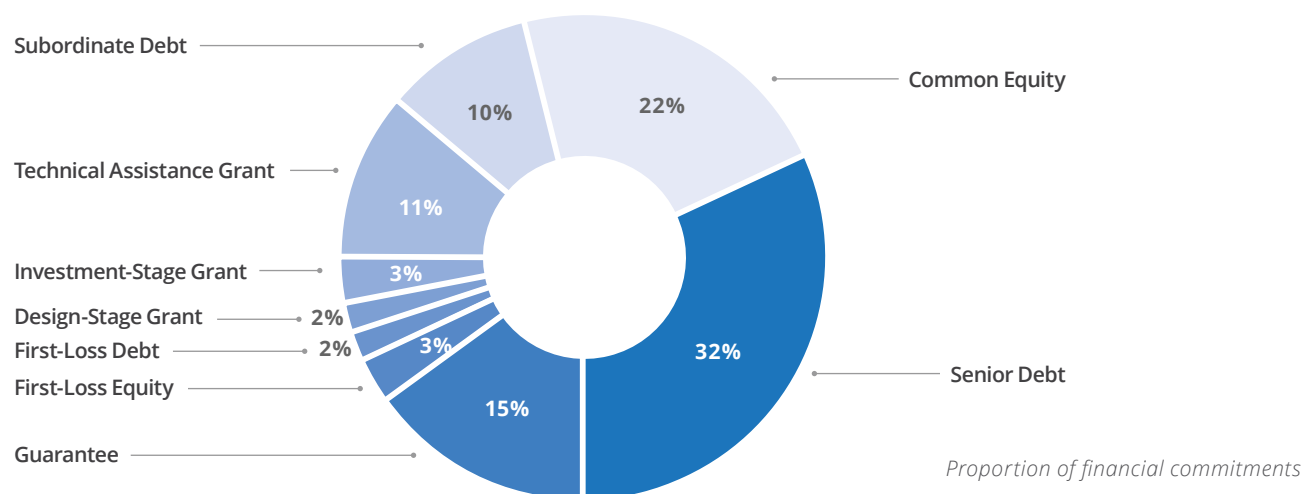


Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs)

MDBs and DFIs represent a consistent and prominent source of funding of blended finance transactions. According to Convergence’s database, MDBs and DFIs have participated in more than 70% of deals each year since 2015. Blended finance deals with participation from MDBs and DFIs represent approximately \$137 billion in total deal flow, accounting for 88% of total financing, as captured

by Convergence’s database. MDBs and DFIs have participated in larger transactions compared to all blended finance transactions; deals with funding from MDBs and DFIs represent a median deal size of \$80 million (compared to \$55 million for all deals). Almost half (45%) of all MDB / DFI deals launched during or after 2015 are over \$100 million.

FIGURE 27 INVESTMENT INSTRUMENTS USED BY MDBS / DFIS (2015-20)



MDBs and DFIs participate in blended finance transactions as i) providers of commercial capital, and to a lesser extent, as ii) providers of concessional capital, which they source from specific pools of donor funding (i.e., through the indirect blending activities of donor governments). Most (68%) MDB / DFI commitments into blended finance transactions are made on commercial terms. This could include both cases where the catalytic capital that makes the transaction blended comes directly from other parties, as well as instances where DFIs are blending concessional funding with their own commercial capital.

MDBs and DFIs have deployed a diverse range of instruments – including grants, debt, equity, and guarantees – to blended finance transactions. Over the past six years, DFIs most often participated in blended finance transactions using senior debt (32% of transactions), which is supported by similar market reports (for example, the [2020 DFI Joint Report](#) states that DFIs most commonly participate in blended concessional finance using senior debt, representing 46% of commitments). The tendency for MDBs and DFIs to participate in a senior position reflects their traditional business models (e.g., investing their own capital at a low to medium risk tolerance) as opposed

to the needs of the 2030 SDG Agenda (e.g., mobilizing private investment to increase the number of SDG projects financed and implemented). DFIs have also commonly used equity (22% of investments), guarantees (15% of investments), technical assistance grants (11% of commitments), and subordinate debt (10% of commitments). Only a very small proportion of investments provided by DFIs have been in the most catalytic layer of a blended finance structure, using first-loss debt or equity (5% of commitments, combined), acting on behalf of donor funds.

To scale blended finance, Convergence views a greater need for risk-taking capital from MDBs and DFIs, consistent with their development additionality and financial additionality mandates, [particularly in the context of COVID-19](#). Data captured by Convergence demonstrates that concessional capital commitments provided by DFIs to blended finance transactions have remained constant over the past five years, averaging \$1.6 billion per year. MDBs and DFIs have additionally provided an average of \$4 billion in commercial financing to blended finance transactions annually. Looking at these two patterns together - that i) DFIs source concessional funds from donor-funded pools under their administration and ii) prefer commercial participation in blended

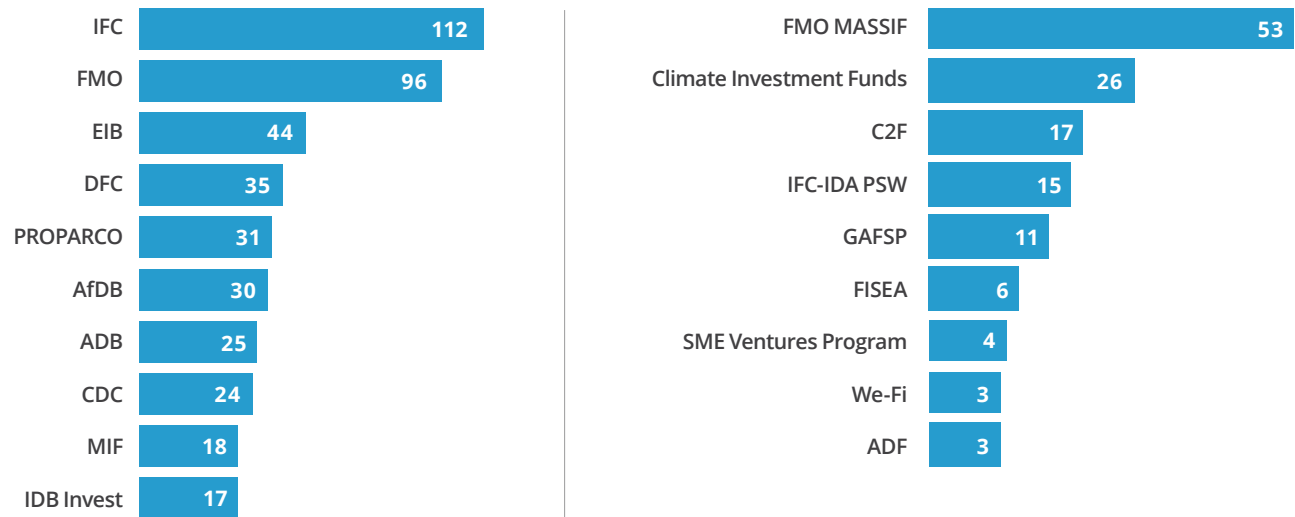
structures – the data suggests that MDBs and DFIs largely use concessional funding to reduce their own risk and not to mobilize third-party commercial partners. This mobilization trend is confirmed by data provided by the 2020 DFI Joint Report, which finds that in 2021, DFIs provided \$1.4 billion in concessional financing, compared to \$5.1 billion in DFI commercial financing from their own accounts, to blended finance transactions. Meanwhile, volumes of financing coming from the private sector, including financial institutions, corporates, asset managers, and pension funds, remain small compared to other sources; 25% of aggregate financing was provided on average from the private sector, while commercial financing from DFIs comprised 36% (with the balance of investments provided from concessional funders). True private sector financing therefore remains a small overall piece of the commercial financing being drawn into blended finance transactions. Until MDBs and DFIs connect these two objectives, of blending for their own risk reduction and blending for the mobilization of private investors, blended finance will not reach scale.

Convergence captures the most active MDBs and DFIs in the blended finance market based on the number of financial commitments to blended finance transactions. Since 2015, IFC (112 commitments) and FMO (96 commitments) have led the field; collectively, these two DFIs have participated in nearly the same amount of blended finance transactions as the following eight most active DFIs combined (both since 2015, as well as historically).

This includes both concessional investments, such as investments from programs like the IDA Private Sector Window or FMO's MASSIF Fund, as well as commercial investments from their ordinary financing accounts. Over the past year, IFC has continued its leadership work in blended finance, including publishing multiple blended finance reports over the past year: Using [Blended Concessional Finance to Invest in Challenging Markets](#) and [Blended Finance and Benefits of Transparency and Access](#) in 2021. Other active DFIs in the blended finance market include the EIB, (44 commitments), DFC (35 commitments), PROPARCO (31 commitments), African Development Bank (AfDB, 30 commitments), ADB (25 commitments), CDC (24 commitments), and IDB Invest (17 commitments). We have also seen greater collaboration between DFIs, as well as DFIs partnering with other catalytic capital providers. For example, in 2021 DFC and FMO announced the launch of the \$75 million [DFC-MASSIF COVID-19 Response Co-Financing Facility](#), to support the availability of liquidity for MSMEs. Also in 2021, DFC announced a [partnership](#) with the Shell Foundation to invest in businesses in renewable energy. In addition, IFC and Rockefeller Foundation [recently announced](#) a catalytic partnership to increase renewable energy solutions in emerging markets using blended finance. The Rockefeller Foundation will deploy up to \$150 million in catalytic capital to mobilize \$2 billion in private sector finance, with both institutions initially contributing \$30 million to projects identified by IFC.



FIGURE 28 AND 29 TOP MDBS / DFIS BY NUMBER OF COMMITMENTS AND TOP MDB / DFI CONCESSIONAL PROGRAMS BY NUMBER OF COMMITMENTS (2015-20)



MDBs and DFIs frequently deploy concessional capital using donor contributions from their government shareholders. These programs are diverse in mandate and thematic scope; some are focused on specific sectors (e.g., climate finance), while others might focus on certain geographies (e.g., fragile and conflict-affected states) or types of businesses (e.g., SME finance). The above figure looks at the top concessional investment programs through which MDBs and DFIs deploy concessional capital. These programs include both bilateral (e.g., MASSIF) and multilateral funds (e.g., Climate

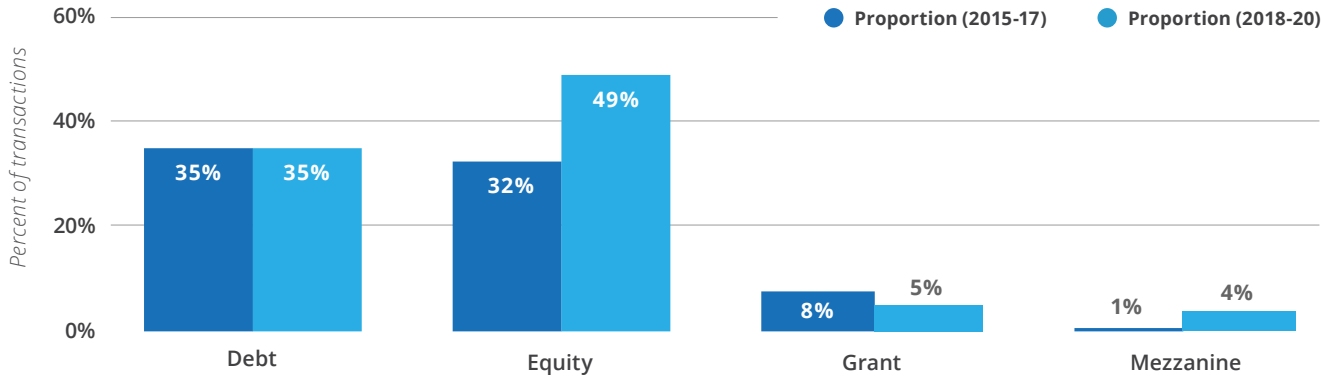
Investment Funds), and extend support through a broad array of instruments, including grants, debt, equity, and performance incentives. The most frequent programs include: FMO’s MASSIF Fund, the IDA Private Sector Window, and the IDB’s Canadian Climate Fund for the Americas Program. IFC has established a target to increase its share of new commitments in IDA countries—largely in low and lower middle-income countries—from about 25% today to 40% by 2030, and increase its share in low-income and fragile countries from about 10% to 15 to 20% over the same period.

Impact Investors

Impact investors represent a small but consistent investor group in blended finance transactions, representing 14% of commitments in the past three years, and 10% of commitments between 2015-17. Impact investors have tended to participate on commercial terms, in line with their mandate to achieve both financial and impact returns; only 14%

of commitments have been priced below-market since 2015. As seen with other investor groups, impact investors have also been increasingly likely to deploy equity over the past three years; almost 50% of commitments to blended finance transactions were in the form of equity in 2018-2020, while debt has remained constant (35%).

FIGURE 30 PROPORTION OF COMMITMENTS FROM IMPACT INVESTORS BY INVESTMENT INSTRUMENT

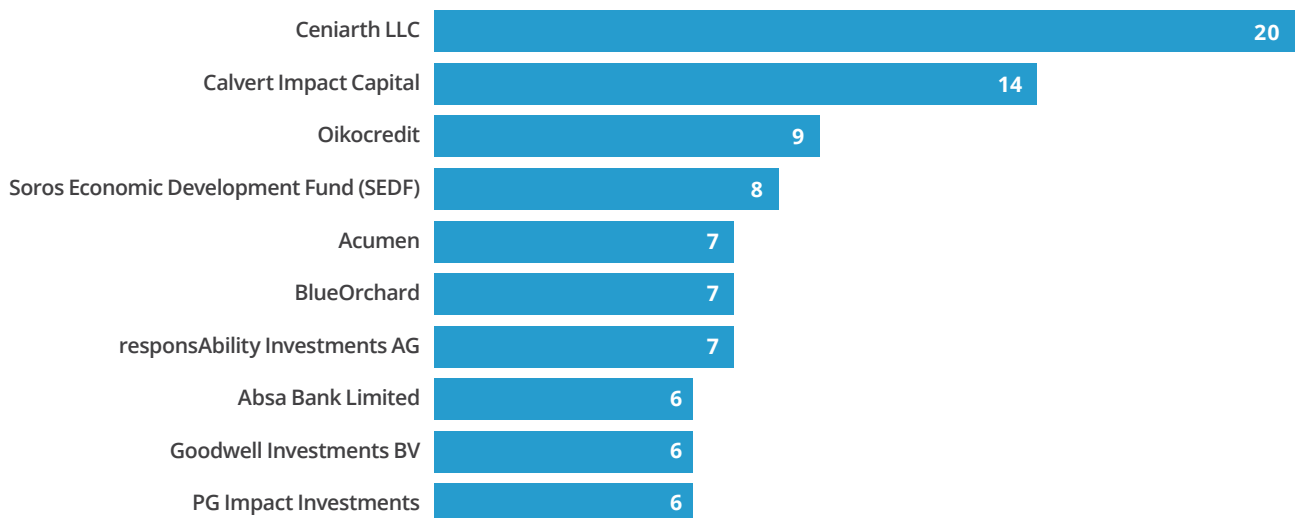


Note: Bar chart may not sum to 100% to account for unknown or missing data.

To date, the most active impact investors in blended finance include: CeniARTH (20 commitments), Calvert Impact Capital (14), Oikocredit (9), and the Soros Economic Development Fund (8). CeniARTH participated in several blended finance transactions in 2020, including investments in the Huruma Fund, Women’s World Banking CPII, and One Acre Fund. In 2021, CeniARTH also provided first-loss capital to Global Partnerships’ ninth fund, the Global Partnerships Impact-First Growth Fund, which

reached first close at \$45.5 million. Here, CeniARTH provided \$3 million in first-loss capital alongside \$2.5 million from the Shelby Cullom Davis Charitable Fund, to mobilize a \$37.5 million anchor investment from DFC. Elsewhere, the impact manager Mirova achieved a first close of its Land Degradation Neutrality Fund, an impact investment fund that invests in profit-generating sustainable land use and land restoration projects in developing countries.

FIGURE 31 TOP IMPACT INVESTORS BY NUMBER OF COMMITMENTS (2015-20)



Commercial Investors

The goal of blended finance is to mobilize private (and particularly institutional) capital into de-risked structures supporting development projects in emerging markets. As such, every blended transaction that Convergence measures mobilizes capital from at least one private sector investor. There has been a slight uptick in private sector financing into blended transactions in recent years, although not at the magnitude required to achieve scale. Commercial investors' market-priced commitments to blended transactions rose by 26% from 2015-17 to 2018-20 (from 255 commitments to 321), suggesting a market shift toward impact-focused investing. However, the drop recorded between 2019 and 2020 (from 128 commitments to 94) could reflect the impact of the COVID-19 pandemic and commercial investors' need to refocus on their core operations.

Three-quarters of the ODA-eligible countries assessed by the Big Three credit rating agencies and the OECD Export Credit Country Classification System are rated as "speculative" (i.e., B+ or lower), and thus outside of the mandates of most commercial debt and equity investors. Commercial capital (even capital tracking 'purpose' investment themes like sustainable finance or ESG investment) will therefore not flow to "speculative" markets at scale without some form of risk mitigation. Meanwhile, raised capital adequacy requirements following the 2007-08 financial crisis have led highly regulated developed market financial institutions to be unable or unwilling to invest significantly in developing countries, while regulatory banking restrictions in many developing markets can lead domestic financial players to favor government securities or more conservative allocations. In the context of the COVID-19 pandemic, blended finance's role in mobilizing commercial capital to flow to emerging markets through risk mitigation will

be [even more critical](#) given the fact that developed markets have their own needs for 'building back better' post-pandemic, heightening the competition for investment capital.

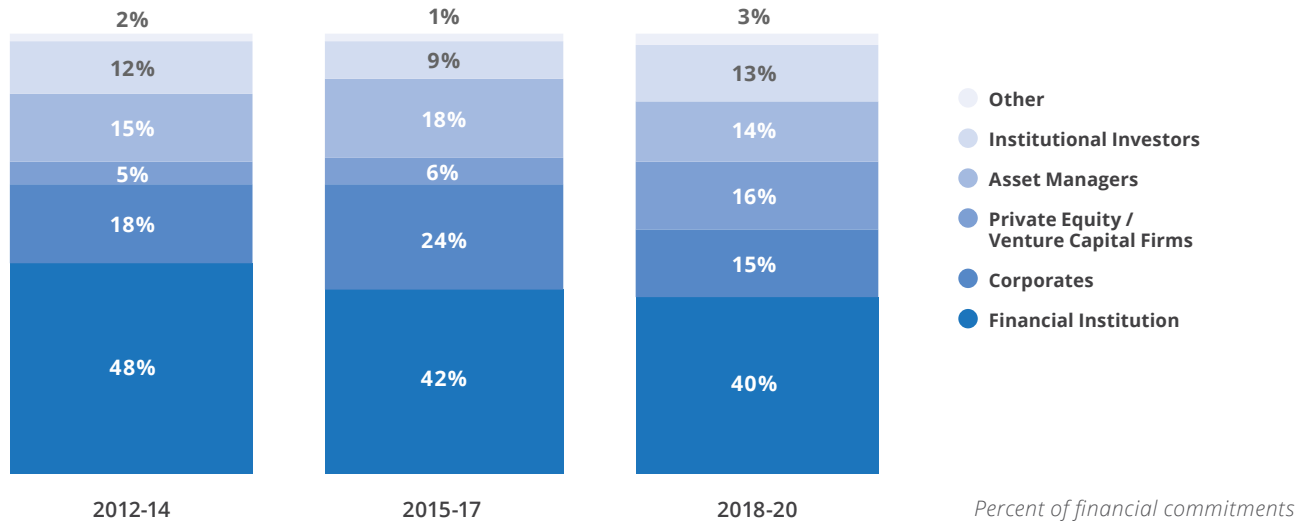
Commercial investors typically commit larger amounts (median investment size of \$20 million between 2015-20) to larger transactions (median transaction size of \$68 million between 2015-20), and they invest both debt (47% of commitments from 2015-20) and equity (50%). As Convergence has previously [noted](#), institutional investors (i.e., pension funds and insurance companies), sovereign wealth funds, banks, and asset / wealth managers have a particular need for larger deal sizes, as they have significant assets under management (AUM) and require large deal sizes to avoid the high relative transaction costs associated with considering many small deals.

As Figure 32 shows, financial institutions, with their large local presence in developing markets and in-house expertise, have consistently provided the highest number of commitments to blended transactions amongst commercial investors, accounting for 40% of commercial investors' commitments in 2018-20. Also, earlier we noted the increasing prevalence of blended private equity funds (funds primarily taking equity positions) as a percentage of overall blended funds captured in our database. This is also reflected on the investor side; viewing private equity / venture capital (PE/VC) firms as the providers of financing to blended structures (rather than as the recipient structures of blended finance flows), Figure 32 shows that they account for a larger proportion of total commercial commitments to blended transactions than in prior years, accounting for 16% of commercial commitments in 2018-20, compared to 6% in 2015-17 and 5% in 2012-14, with PE/VC-backed

transactions mostly targeting sectors like general¹⁰ (25% of PE-backed transactions), financial services (22%), and energy (20%). This is a positive signal

that blended finance is becoming increasingly incorporated into alternative investment portfolios.

FIGURE 32 FINANCIAL COMMITMENTS FROM COMMERCIAL INVESTORS TO BLENDED FINANCE TRANSACTIONS, BY ORGANIZATION TYPE

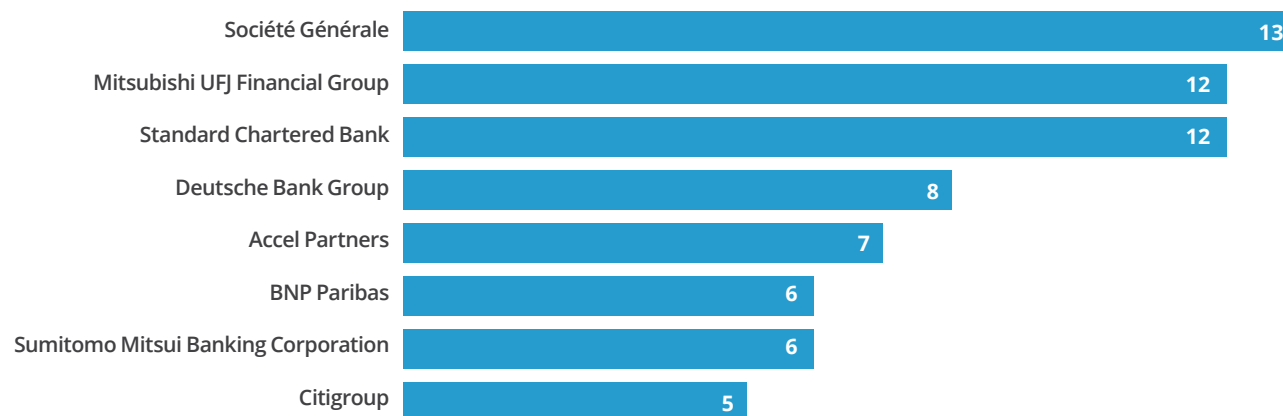


The most prominent commercial investors in blended finance over the past five years have generally been commercial banks such as Société Générale (13 commitments), Mitsubishi UFJ Financial Group (12), Standard Chartered Bank (12), and Deutsche Bank (8), although the VC fund Accel Partners has also been active (7). Société Générale’s senior loans to projects and companies active in the energy and infrastructure space in emerging markets form an important part of its commitments to date, with examples including its provision of \$19 million of debt financing in 2020 to [GreenYellow](#), the largest solar power plant in Madagascar, in a transaction that also included guarantees of \$9.3 million and \$3.8 million from GuarantCo and the African Guarantee Fund, respectively.

Elsewhere, in July 2021 BlackRock [announced](#) the first close of its flagship blended finance fund, the Climate Finance Partnership (CFP), raising \$250 million from a consortium of ten institutional investors, governments, and philanthropic organizations to invest in climate infrastructure across emerging markets. Convergence played a role in the initial design of the vehicle, [awarding](#) a proof-of-concept grant to Aligned Climate Capital in 2018 to support the coordination and design of the CFP. Also, the UN-convened [Net Zero Asset Alliance](#), an international group of over 40 institutional investors looking to achieve net-zero greenhouse gas emissions within their portfolios by 2050, [issued a call](#) in February 2021 to asset managers to collaborate in launching blended vehicles in the \$300-500 million range, with the aim of increasing investment in climate solutions.

¹⁰ Transactions targeting multiple sectors are classified as “general”

FIGURE 33 TOP COMMERCIAL INVESTORS IN BLENDED FINANCE BY NUMBER OF COMMITMENTS (2015-20)



Philanthropic Organizations

Philanthropic organizations, including foundations and NGOs, play a unique role in the blended finance market, given their catalytic potential and aptitude for flexible financing. Foundations and NGOs have represented a small but consistent share of investments into blended finance transactions, representing 8% of commitments from 2015-17, and 9% between 2018-20.

Unsurprisingly, most investments provided by foundations and NGOs have been on concessional terms; 60% of commitments invested since 2015 are priced at below-market terms. Foundations and NGOs are significantly more likely to participate in blended finance transactions using risk-bearing capital, including through first-loss debt or equity (10% of commitments), compared to other funders. Despite being a modest share of total commitments to blended deals, foundations and NGOs have more frequently participated in social sectors such as health and education compared to other funders; 11% of investments by philanthropic organizations went towards health, compared to 5% by all investors. Likewise, 6% of investments

from philanthropic organizations have targeted the education sector, compared to 2% overall.

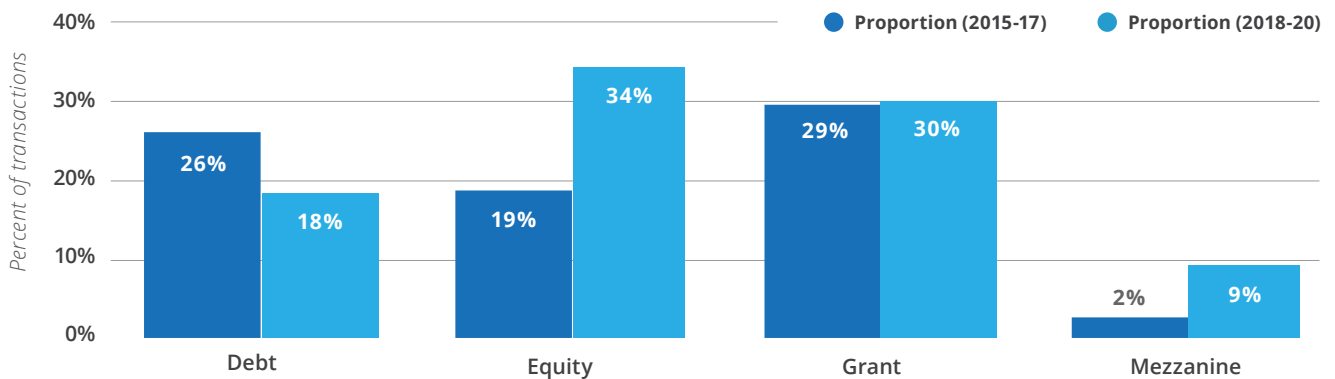
Foundations and NGOs have generally engaged in blended finance using three investment instruments: grants (30% of investments from 2015-20), equity (27%), and debt (23%). Over the past five years, grants have continued to be a hallmark instrument for philanthropic organizations, accounting for almost a third of all investments (30%). This includes investment-stage grants (36% of grants), technical assistance grants (22%), and design-stage grants (20%). Philanthropic organizations are increasingly re-purposing traditional grant instruments into investment instruments. This includes, for example, structuring grants as zero-interest loans.

Meanwhile, we are seeing a shift in the use of debt and equity over the past three years, as foundations and NGOs have demonstrated an uptake in equity financing (increasing from 19% of commitments in 2015-17, to 34% from 2018-20) and a proportional decrease in debt financing

(decreasing from 26% of commitments in 2015-17, to 18% in 2018-20). This is likely due to the increase in both the number, and proportion, of private equity funds being launched in the blended finance market overall. One notable example includes

the aforementioned CFP, managed by Blackrock, which includes first-loss equity participation from foundations such as the IKEA Foundation, Hewlett Foundation, and Grantham Foundation.

FIGURE 34 INVESTMENT INSTRUMENTS USED BY PHILANTHROPIC ORGANIZATIONS (2015-20)

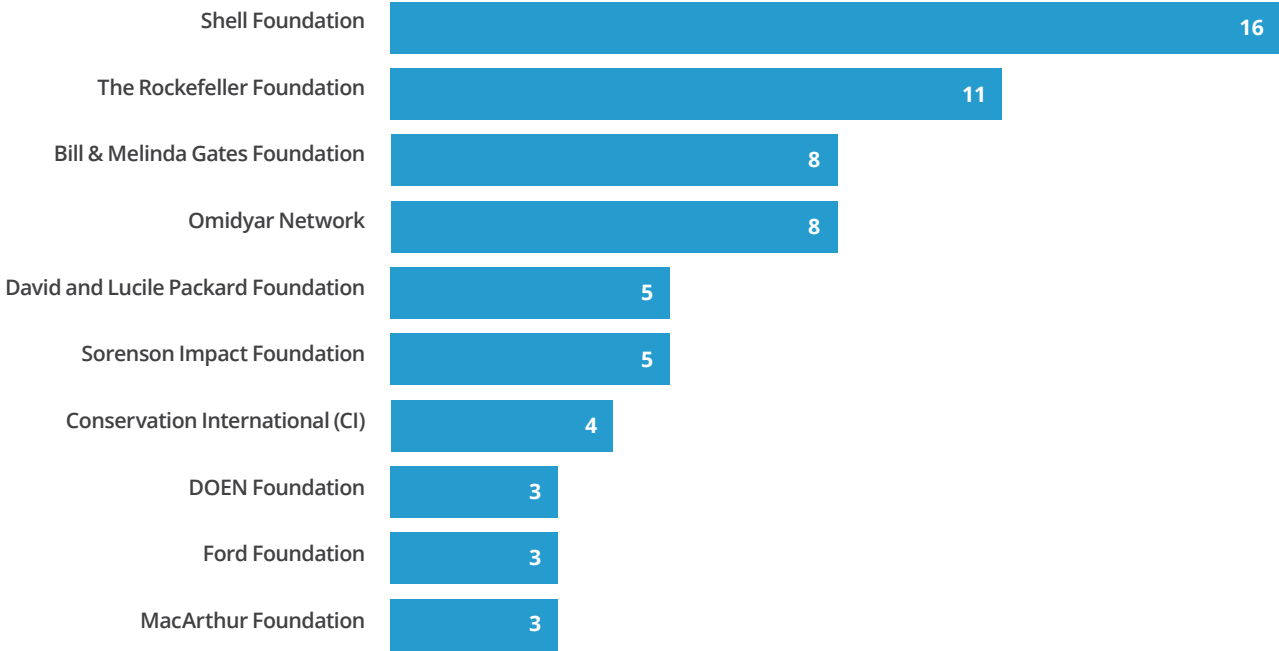


Note: Bar chart may not sum to 100% to account for unknown or missing data.

Over the past six years, the philanthropic organizations most likely to participate in blended finance have remained fairly consistent. These include the Shell Foundation (16 commitments), the Rockefeller Foundation (11), Omidyar Network (8), the Bill and Melinda Gates Foundation (8), and the David and Lucile Packard Foundation (5). In 2020, the Shell Foundation accelerated its financing towards renewable energy projects in developing countries to provide support during the Covid-19 pandemic. Several blended companies that have received early-stage support from the Shell Foundation achieved milestones in 2020, including the [financial exit of CrossBoundary Energy](#) from its first fund at 15% net internal rate of return (IRR). This follows the provision of \$40 million in new equity financing by ARCH Emerging Markets Partners' Africa Renewable Power to exit initial investors. As mentioned earlier in this report, we are also seeing more strategic partnerships formed between catalytic capital providers. In 2021, the

Shell Foundation announced a blended finance partnership with DFC, committing to deploy more than \$45 million in grant funding by 2025 to a pipeline of high impact businesses that distribute renewable energy to businesses in off-grid areas. Meanwhile, the Catalytic Capital Consortium, first launched in 2019 by the MacArthur Foundation, Rockefeller Foundation, and Omidyar Network, announced [new strategic partnerships](#), including with Convergence, to advance the use of catalytic capital. As mentioned above, the Rockefeller Foundation also announced a [new blended finance partnership](#) with IFC, to mobilize greater financing into renewable energy projects. Convergence views a greater need for catalytic capital partnerships such as these, which leverage the existing strengths of different capital providers; in this case, the origination capacity and developing markets expertise brought by IFC, combined with the flexible capital of the Rockefeller Foundation.

FIGURE 35 TOP PHILANTHROPIC ORGANIZATIONS BY NUMBER OF COMMITMENTS (2015-20)





Part II Achieving Scale in the Blended Finance Market – Key Challenges

As highlighted in Part I, blended finance flows are not on track to mobilizing the “billions to trillions” required to fill the SDG financing gap by 2030. Convergence has identified four key challenges to achieving scale in the blended finance market. These challenges are summarized below, with recommendations and guest perspectives covered in Part III of this report.

1. Lack of a Private Sector Mobilization Strategy and Action Plan

Blended finance is one tool in the development toolbox centered on increasing the quantum of financing to SDG projects. Donors are the main source of the catalytic funding that mobilize private investment, but they have not prioritized and budgeted private sector mobilization as a necessity to significantly narrow the SDG financing gap.

The adoption of the SDGs in 2015 prioritized the mobilization of private sector expertise and investment, with UN member countries signing: [“Transforming Our World: The 2030 Agenda for Sustainable Development”](#), and major MDBs publishing: [“From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance”](#). However, six years into the 2030 Agenda, the impact of the COVID-19 pandemic on developing countries could see the annual SDG financing gap [increase](#) from \$2.5 trillion to \$4.2 trillion, according to the OECD. The foundational structure of the official development community has been in place for over 35 years with little change. A multitude of organizations provide direct or indirect financing to support public sector and private sector projects in developing markets: (i) OECD DAC members allocate ODA; (ii) the World Bank provides loans and grants and the sovereign operations of MDBs provide loans to fund public sector operations; and (iii) DFIs and the private sector operations of MDBs provide financing to private sector operations. The

mobilization of private investment continues to be a tertiary business for development organizations (with only around 2-3% of ODA allocated annually to private sector mobilization), and a secondary business for MDBs and DFIs. Very few have meaningful mobilization targets and activities (except for the Multilateral Investment Guarantee Agency (MIGA), which is expressly focused on mobilization).

Illustrating the real world effect of this, Convergence has [found](#) that, while each dollar of concessional capital deployed to a blended fund mobilizes on average \$4 in commercially-priced capital, only a fraction comes from private sector investors. The average private sector mobilization ratio has been only 1.10, with \$2.90 coming from non-private sector sources (i.e., MDBs and DFIs). Meanwhile, the mobilization data from the MDBs’ reporting [for 2016-19](#) indicate they directly mobilize around \$0.40 of private capital for every \$1 of their own resources deployed across all their operations. This finding is further supported by the DFI Joint Reports on Blended Concessional Finance. The [2020 report](#) shows that, in 2019, DFIs deployed \$1.4 billion of concessional funds from donors into blended projects, mobilising \$5.1 billion of DFIs’ own-account financing and only \$3.1 billion of private sector financing (directly and indirectly). With the sovereign risk ratings of most developing countries being beyond the mandate and criteria of many investors (their median risk rating is “B”), private capital will not flow to SDG projects without a mobilization strategy that prioritises and funds increasing cross-border investment into developing markets.

What could MDBs and DFIs do with concessional resources if they adopted a private sector mobilization strategy where they expanded their businesses and accepted higher risk? The Overseas Development Institute [argued](#) that the major MDBs could expand their lending by up to \$1.3 trillion (nearly triple current levels) if they were willing to risk a rating downgrade to AA+. Similarly, in the context of the COVID-19 pandemic, the Tri Hita Karana Working Group [noted](#) that if DFIs were willing to accept possible downgrades to their institutional ratings, and their shareholders

were willing to accept reduced profitability, they could adjust their business models and adopt a significantly more countercyclical role, pursuing higher risk for higher impact. Greater [project preparation support](#) for host governments and [enhanced collaboration](#) to create investor-friendly environments, would address the charge that a lack of bankable projects precludes additional funds from being allocated. Put simply, without a coherent and budgeted private sector mobilization strategy, the widening SDG financing gap will grow wider still.

2. Low Levels of Coordinated Participation from Developing Country Governments and Untapped Domestic Resources

Representation from developing country governments and expertise from regional development banks and institutional investors is crucial to scaling blended finance. Domestic institutional capital remains largely untapped when it comes to financing SDG investments.

Local institutional investors' intimate understanding of local investment landscapes make them [better placed](#) to assume operating risks in developing markets, where they may require

a [lower risk premium](#) than their international peers. Their presence in local development projects can also provide comfort to potential overseas investors, and their ability to invest in local currency can provide financing solutions that are more flexible and sustainable for projects [generating](#) local currency revenues. However, local institutional investors' potential commitment to SDG projects has been constrained by regulatory limits, their unfamiliarity with alternative asset classes and how to assess and mitigate risk, and (for pension funds) a [fiduciary responsibility](#) to preserve capital. As a result, local institutional investors have tended to be more conservative,

preferring the security of government treasury bills to funding development projects with higher perceived risk. Local capital markets in many developing markets are thus less robust, and often [do not provide](#) long-term local currency loans and equity capital.

However, the persistent global low-interest rate and low-yield environment has [driven](#) investors worldwide toward alternative investments in a hunt for higher returns and diversification (and particularly toward private markets such as private equity, real estate, infrastructure, and private debt). There are also signs of [rising interest](#) amongst local institutional investors in alternative asset classes like infrastructure, SME finance, and private equity, segments with a potential development angle where properly-structured and standardized blended finance solutions can play a critical de-risking and mobilizing role. [Long-running policy discussions](#) concerning how pension funds and other local institutional investors can pool their resources to better manage risk and benefit from economies of scale could, if successful, increase the quantum of local institutional capital entering development projects, as shown by the formation of the Kenya Pension Fund Investment Consortium and its involvement in large-scale regional infrastructure investments. Finally, increasing the ceiling on institutional allocations to alternatives could also be catalytic, with the assets under management of domestic institutional investors in Africa, for example, being [estimated](#) at \$1.8 trillion.

Convergence has previously discussed the importance of building the capacity of local institutional investors to engage in blended finance by raising their understanding of how it can provide downside protection, as well as the role that MDBs, DFIs, and donors [can play](#) in catalyzing local investors in regions like Sub-Saharan Africa. Indeed, national development banks (NDBs) can play a [potentially critical role](#) in providing lower-cost, longer-term financing for transformative developing market infrastructure projects. They can do this by leveraging their local sectoral expertise and their intimate knowledge of their country's development needs, alongside their ability to access relatively cheap, longer maturity financing, potentially helping to mobilize private sector financing and providing evidence of the commercial viability of the financed projects. Similarly, higher levels of coordinated participation from developing country governments in blended finance could also help to catalyze local institutional capital. Developing country governments continue to play a limited role in blended finance, with none appearing amongst the most active donor governments for 2015-20. However, this may speak to the lack of publicly accessible data and information on domestic blending activities, which leaves the international donor community generally unaware of blended finance activity where global funders are not present.



3. Lack of Transparency on Blended Finance Activity Limits its Scalability

Concessional capital providers do not publicly disclose financial terms or ex-post development outcomes, limiting the evidence base for blended finance as a development tool, while private investors do not disclose data on financial performance due to confidentiality concerns. Together, this hinders blended finance from scaling.

The call for greater levels of transparency from blended finance practitioners is not new. The lack of public data has remained a constant source of criticism over the years, with 2021 being no exception. As stated earlier, nearly 70% of transactions either do not report data publicly or have an unknown reporting status. Of course, much of this data could be provided confidentially to investors and shareholders; according to the OECD's most recent funds and facilities survey, most blended collective investment vehicles (CIVs) share their evaluation findings only with investors (58% of CIVs, increasing from 41% in the previous survey) or only with internal management (51% of CIVs, increasing from 35% in the previous survey).

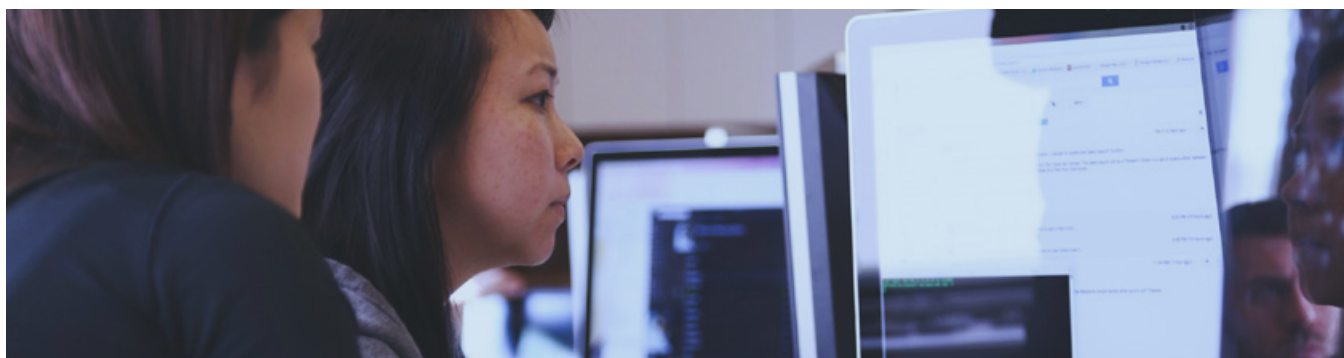
However, the lack of transparency in blended finance reflects a larger and long-standing issue in development finance. Groups such as the International Aid Transparency Initiative have been dedicated to boosting transparency to bolster accountability from donors and MDBs / DFIs over their use of development funds.

The paucity of publicly available information on blended finance transactions is a significant barrier to its scale and uptake. A lack of evidence on development impact and subsidies limits the provision of concessional funding from donors and MDBs / DFIs, who require this information to prove the effectiveness of using ODA for blended finance. While each donor and MDB / DFI collects this information on a confidential basis, there is no meaningful feedback loop among development institutions. Yet, benchmarking information on how their peers are using concessional financing within transactions would help donors and MDBs more efficiently assess their own operations, to ensure that they are not over-subsidizing the private sector or applying concessional resources where they are not needed. At the same time, private sector parties are not able to discern, during the process of structuring blended transactions, what the "market" is for concessional funds; that is, what terms and conditions to expect ODA providers to demand. In addition, an absence of information on financial outcomes, specifically returns and default rates of blended finance transactions, limits interest from private investors, who require this evidence to assess risks. Many investors take a blanket view of financial risks present in developing countries; much of this is based on perception, and the disclosure of financial performance provides an effective opportunity to counter this. Meanwhile, a further challenge exists in that private sector investors often have no incentive to disclose performance data and, in some cases, are subject to confidentiality provisions; the right to disclose rests with their clients, limited partners, and shareholders. This is an inherent hurdle on the path to transparency, although aggregated information may provide a first step forward.

A related but different issue relates to transparency around how concessional capital is allocated. Investors face [challenges](#) navigating the availability of concessional capital, including identifying which SDGs, regions, and sectors donor institutions prioritize, as well as clarity surrounding the terms, availability, and criteria for accessing donor funding. As indicated below, the use of competitive tenders and open access approaches would also boost the participation of private investors in blended finance.

We are encouraged, however, by the progress that has been made over the last year to improve transparency in development finance and blended finance specifically. Some of these highlights are summarized below:

- The release of the Global Emerging Markets (GEMs) Report on Default Statistics: In 2020, the GEMs Risk Database published a report titled [Default Statistics: Private and Sub-Sovereign Lending 2001-2019](#), summarizing default rates for a set of 11 MDBs and DFIs on their credits to private and sub-sovereign borrowers. This is the first time that information on this data has been made available to the public. Encouragingly, the default rates have mostly been in the range of 2-4% (in line with market averages). However, this data is not disaggregated further by country, region, income group, sector, or type of instrument, limiting its utility to market participants.
- IFC Subsidy Disclosures: IFC is the first and only DFI to disclose concessionality levels in its blended finance transactions on an individual project basis. The subsidies are expressed as a percentage of total project cost. IFC further provides blended finance statistics at the aggregate level, to benchmark overall volumes of concessional finance relative to commercial and DFI finance. In 2021, IFC published its [Transparency and Access report](#), which highlights future steps to advance transparency practices. This includes sharing experiences amongst DFIs, developing simplified approaches to benchmark levels of concessionality on individual transactions, and expanding the use of competitive tenders and open access approaches.
- Publish What You Fund: The DFI Transparency Initiative has published several reports over the past year looking at increasing the transparency of DFIs across its five workstreams: 1) Basic Project Information, 2) Impact Management – Objectives, Theories of Changes & Impacts, 3) ESG & Accountability to Communities, 4) Value of Investment: Mobilization & Structure of Deal, and 5) Financial Intermediaries. Publish What You Fund’s DFI Transparency Initiative team is currently working on a draft “aggregation standard” to provide guidance on reasonable levels of data aggregation given the specific geographical and sectoral make-up of a DFI’s portfolio.



4. The Ecosystem for Blended Finance Is Underdeveloped

There is a lack of financial intermediation in the blended finance market and to address the SDG investment gap more generally. On the one hand, donors and investors are looking to channel large amounts of capital towards market opportunities aligned with the SDGs. Yet SDG projects are often small, and there are few intermediaries in the market equipped to channel these flows. Even when blended finance can successfully aggregate pools of cross-border investment, there are few intermediaries that could channel these flows effectively.

One potential pathway is to leverage the expertise of MDBs and DFIs, who have deep expertise in originating deals and sourcing deal pipeline. After all, MDBs and DFIs are the most prominent investors in blended finance deals, participating in over 70% of deals between 2018-20. However, MDBs and DFIs largely originate deals for themselves. Coupled with the fact that MDBs and DFIs largely dominate the market, other intermediaries are not able to effectively compete for deals. Our data, as well as data provided by the DFI Joint Report, confirms that MDBs and DFIs largely use blended finance as a tool to mobilize their own commercial financing; DFIs / MDBs have provided \$1 billion in concessional financing, and \$4 billion in commercial financing from their own accounts, with a small fraction coming from third party investors.

While there are other intermediaries in the market, including experienced fund managers such as BlueOrchard, Bamboo Capital Partners, Climate Fund Managers, and responsAbility AG, these intermediaries are often crowded out or face high barriers to entry. More support is needed to connect and create new intermediaries that can access deals in emerging markets. The creation of specialized intermediaries such as InfraCredit, GuarantCo, and EAIF – all subsidiaries of the PIDG Group – have been particularly effective in developing local markets while leveraging the expertise of donor governments. Funded by government shareholders, these specialized vehicles benefit from donor capital and investment grade ratings, and are fit-for-purpose, deploying specific instruments such as guarantees and local currency financing to support local projects. These organizations are also capital-efficient; they can lever their capital up to three to four times, while maintaining an “A” rating. For example, GuarantCo is able to leverage \$3 for each \$1 of donor capital in the form of guarantees. We are also seeing leadership from private investors in this regard. For example, in 2018, Allianz Global Investors committed up to EUR75 million and \$25 million to EAIF.

An increased use of competitive tenders and open access approaches is another path forward. More intermediaries might endure the cost and risk of putting investible blended transactions together if the development community made its intentions more apparent and there was a formal process for competing for the funding. As mentioned above, IFC is contemplating this kind of program as part of its future transparency initiatives, and DFC has a longstanding practice of issuing themed calls for

proposals, albeit only for funds. In addition, USAID has a number of initiatives designed to solicit a private sector response (such as INVEST and CATALYZE) that could offer a model for supporting intermediaries to generate blended dealflow toward specific development objectives.

In addition to a limited number of financial intermediaries, there is also a lack of financial intermediation; that is, available structures for channeling capital. We have seen limited replication and scaling of structured blended finance products

whose first iteration succeeded in drawing in large institutional investors. Convergence has previously advocated for practitioners to focus on developing standardized, simplified blended finance structures that are familiar to private investors. This includes prioritizing collective investment vehicles such as funds, which can offer scale due to the benefits associated with the aggregation of smaller deals, and are well understood in the markets. Blended finance practitioners should focus on replicating proven solutions in the market.





Part III
Achieving Scale
in the Blended
Finance
Market –
Recommendations and
Guest
Perspectives

This section presents a series of recommendations endorsed by Convergence to achieve scale in the blended finance market. These recommendations are followed by guest contributions¹¹ from a group of leading stakeholders in the blended finance market, including donors, think tanks, MDBs and DFIs, and private investors.



Recommendation

Donors should implement a strategy where a known amount of development funds can be allocated annually to blended finance transactions. They must make private sector mobilization an essential pillar of their strategy and make it a key performance indicator for the recipients of their financing.

The World Needs an Active Capital Mobilization Agenda

BY **LESLIE MARBURY**, ACTING CHIEF OPERATING OFFICER, PROSPER AFRICA, AND **CAMERON KHOSROVSHAHI**, SENIOR INVESTMENT ADVISOR, PROSPER AFRICA



In 2015, the Addis Ababa Action Agenda highlighted the critical role the private sector and private capital should play in achieving the SDGs. But in the six years since, this critical role for the private sector has not been translated into practice, threatening to subvert progress on people and

planet at a time when twin climate and COVID-19 pandemic crises accelerate. According to the OECD, the annual SDG and climate investment gaps have only grown over the last year, rising from \$2.5 trillion in 2019 to \$4.2 trillion in 2020 as the global COVID-19 pandemic sapped public and private

¹¹ The views and opinions expressed are those of the authors and do not necessarily reflect the opinions or views of Convergence or its members.

investment. Against this gargantuan annual sum, all ODA and multilateral finance combined only approaches \$200 billion per year.

A widening SDG investment gap seems insurmountable in an era of limited fiscal space, growing global debt levels, and stagnant ODA budgets. But it is not a large sum compared to the \$380 trillion in global financial assets, many of which are earning sub-standard returns in mainstream markets under a prevailing low-interest rate environment. This capital wants to move into the faster-growing developing world where returns are higher and further diversification mitigates overall risk. Only 1.5% of this vast sum would close the SDG and climate investment gaps entirely, placing planet and people on a trajectory towards recovery. Moreover, much of this capital could be long-term in nature as large investors such as pension funds and insurance companies seek stable, long-dated returns for their retirees and policyholders. These institutions could fund the kinds of systemic investments in the developing world that are so critical to building resilient societies as a new generation of workers and retirees care more about social and environmental impact alongside financial returns.

But without an active, coordinated mobilization agenda among donors, the largest under-utilized pool of capital in the earth's history cannot be harnessed for good. Without mobilizing the scale of these private resources, there is no future where the world achieves its SDG and climate goals. Unfortunately, the current development finance system is ill-equipped to mobilize other people's money. That's understandable when you realize it was created in a very different world back in the 1950s, when most resource flows to the developing world were from public sources. Today, the reverse is true: 90% of those resource flows are private. According to the OECD, between 2012-19, all

donors and MDB/DFI finance combined mobilized an average of \$32 billion in private capital per annum, a mere 0.1% of the annual \$3.7 trillion in annual SDG investment needed. That amount will never get us there.

While private capital wants to invest in the developing world, most of the developing world, 88% of it, lies outside the fiduciary mandate of most investors at sub-investment grade risk levels. Investors are ready to invest more broadly in developing markets; indeed, many of them have to in order to meet their pension commitments to hundreds of millions of workers around the world. But they also need to partner with donors to manage risk in markets that are still unfamiliar to them, allowing them to benchmark, price and make investments. The ultimate goal of an active mobilization agenda is to promote investor partnerships that hinge on a more strategic use of donor resources to take away some of the risk for investors, that they can deploy capital at scale and become familiar with the risk of new markets. It would require donors setting aside a known amount of official funding each year for blended finance transactions that can better apportion risk between the private and public sectors and crowd in capital at scale in the service of the SDG and climate goals. It would require making mobilization an essential pillar of development strategy and tracking it among all recipients of financing and assistance. The potential is there. If 7.5% of ODA was programmed more strategically, it could mobilize seven times private investment – \$80 billion annually – equal to around 15% of the GDP of low-income countries. All with existing development resources. Absent this shift in strategic thinking and development funding allocation, the global community risks continuing to inch forward with halting, marginal progress while poverty, food insecurity, and climate catastrophe loom.

How FCDO is Mobilizing Private Finance into Developing Markets at Scale



BY **ROB PROBYN**, SENIOR MOBILIZATION ADVISOR, FOREIGN, COMMONWEALTH, AND DEVELOPMENT OFFICE (FCDO)

As the [Sustainable Development Goals 2021 report](#) makes clear, the world is not currently on track to achieve the SDGs by 2030. Even before the COVID-19 outbreak, progress had been too slow, and the pandemic has made the situation worse. The need for a significant and sustained scaling up of investment that responds to the threat of climate change is particularly acute. A key objective of COP26, to be hosted by the UK in Glasgow in November 2021, is to deliver the step-change in the volume of climate investment that is urgently needed.

But public sector finances – under strain before the pandemic hit – do not have the resources to meet the investment need. The private sector has a vital role to play, including in emerging and frontier markets. However, there are well-known barriers that make it challenging for investors to find attractive investment opportunities in these markets, including: (i) an absence of potential investments of the scale that institutional investors require; (ii) a lack of suitable investment structures that would channel investment into emerging and frontier markets; and (iii) a shortage of bankable projects that offer an acceptable balance of risk and reward.

Development actors, including MDBs, DFIs, and development agencies, have an essential role to play in tackling these (and other) barriers. By making private sector mobilization an essential pillar of their strategies, and by co-ordinating their efforts, these actors can leverage their own resources to achieve far greater impact.

That is why in June 2021, G7 leaders, under the UK Presidency, committed to developing a partnership that will orient development finance tools towards the challenges faced by developing countries, with a particular focus on clean and green growth. Leaders committed to enhancing the development finance tools at their disposal, including by mobilising private sector capital and expertise.

Public sector capital can be deployed to support private sector investment in various ways – for example, through providing a first loss tranche that de-risks private investors, through a pari passu anchor investment, or through issuing a guarantee. The potential of guarantees is worth further exploration in particular. As they do not require funding, guarantees allow for more efficient use of the financial resources of the guarantor. In addition, they can be precisely targeted on those risks that are difficult or impossible for the private sector to manage. But whatever the mechanism, we must aim for minimum concessionality, for two reasons: too much concessionality has a damaging, market-distorting impact, and is an inefficient use of limited public sector resources.

These principles are central to the FCDO's flagship mobilization program, 'Mobilising Institutional Capital Through Listed Product Structures', or [MOBILIST](#), which aims to mobilise large scale institutional investment flows into emerging and frontier markets. The key innovation underpinning the MOBILIST programme is that it specifically targets the development of listed

products, recognizing that globally this is where the majority of institutional investment goes. In addition, rather than respond in an ad hoc way to unsolicited approaches, MOBILIST will identify the best opportunities through a series of open competitions. Earlier this year, MOBILIST launched a competition for proposals that will lead to the listing on recognized stock exchanges of products that channel investment towards clean and green projects in developing countries. Co-investment from the FCDO is available, but on non-concessional terms. While MOBILIST responds to institutional investors' demand for listed products, and will directly mobilize private sector investment alongside FCDO's investments, the real prize will be the demonstration of a new, scalable, commercially-viable mechanism for intermediating private sector capital into emerging and frontier markets.

In partnership with Convergence, the FCDO has also developed the [COP26 Blended Finance Platform](#). The Platform brings together key stakeholders from the public and private sectors to tackle the practical problem of how to finance the large blended climate finance vehicles that need to be part of the solution. In particular, the Platform has been working with a wide range of donors, and with key industry bodies, to identify the criteria that make blended finance structures attractive to both public and private sector investors.

We are making progress. The OECD estimates that \$78.9 billion of climate finance was mobilised in 2018. The Glasgow Financial Alliance for Net Zero represents approximately \$90 trillion of assets committed to net zero by 2050. But more – much more – remains to be done.



Recommendation

MDBs and DFIs must put in place strategies to engage with institutional investors on a radically different scale.

What MDBs Can Do to Mobilize Private Capital At Scale

BY **NANCY LEE**, SENIOR POLICY FELLOW, CENTER FOR GLOBAL DEVELOPMENT (CGDEV)



Despite criticism of the “Billions to Trillions” action plan, we know that catalyzing much larger volumes of private sector finance for SDG-related investments remains the only viable avenue for achieving the scale needed in developing countries, given very real constraints on fiscal space and on growth in foreign aid.

In fact, the private sector itself is turning a corner, in word if not yet in deed. The giants of global wealth management, private equity, and institutional investment view green and social investments as essential, both for reducing global risks and for capturing sustainable returns. The challenge is to direct more of it to emerging markets and poor countries.

So far, the MDBs remain marginal players in turning this vision into reality. The available data suggest that MDBs collectively mobilize \$1.5 of private sector finance for every dollar they commit on their own balance sheets. For their blended finance operations (combining commercial and

concessional finance), in 2019 they mobilized a total of \$3.1 billion in private finance, less than their own commitments of \$5.1 billion. It is important to understand why. The reasons are fundamental and embedded in their business models.

MDBs operate as low-cost-of-capital commercial banks, leveraging shareholder capital through market borrowing and lending to public and private clients at higher, but still favorable, rates. The interest spread funds their programs and can even add to their capital over time. This model works well for lending to governments where the principal aim is to maximize the volume of MDB finance to add to public spending for social, infrastructure, or productivity enhancing purposes. When private banking sectors barely functioned in developing countries, it worked well for private borrowers with no alternatives.

But the world has changed. In most of the developing world, there are functioning banking sectors. The problem is that they don't lend

enough, especially to where it is most needed for poverty and inequality reduction, countercyclical crisis resilience, or combatting the effects of climate change.

For understandable reasons, MDB finance models lead to a focus on:

- The volume of their own transactions, the principal basis that shareholders and others use to judge their performance and to assess when additional capital is needed;
- A preference for lending over instruments like guarantees and equity, though the latter perform better in mobilizing private capital;
- A staff skill mix heavily concentrated in low-risk senior lending, with low non-performing loans and write-offs;
- Risk-adjusted market returns (not required for financial sustainability);
- Approaching risk from a commercial banker's perspective;
- A preference for senior positions in capital stacks, which leads to competition among themselves and with private actors with similar preferences; and
- A reluctance to work in countries and sectors where transaction costs are high and thereby eat into MDB profits.

All this suggests that fundamental changes to the model and governance are needed for greater catalytic and impact power. The following proposals address core problems in incentives, mission clarity, and value for money:

1. **Set mobilization of private finance as the number one institutional target.** Only one institution so far, the IFC, has set any explicit mobilization target, and its fiscal year 2020 target for private and public finance mobilized,

at \$10.8 billion, was modest when compared to its own commitments of \$11 billion. Going forward, the mobilization target is 80 cents for every dollar of IFC commitments, and that includes mobilization from other public sources.

2. **Target financial returns adjusted for impact.** Impact should be defined in both development and emissions terms. This could well mean accepting below-market (but positive) financial returns at the portfolio level.
3. **Focus operations on critical gaps in capital markets and on instruments best suited to addressing these gaps.** Examples include early-stage finance (including first loss guarantees and equity) for firms and infrastructure, local currency finance, and finance for sectors with positive development and environmental externalities that private investors cannot fully capture.
4. **Establish systematic collaboration between the public and private arms of MDBs.** This is essential for identifying and reducing the sectoral investment risks-including policy, regulatory, and institutional barriers-that constrain bankable/investible project pipelines.
5. **Shift from the originate-and-hold model to an originate-and-transfer model for part of the portfolio (while avoiding reduced risk tolerance and development focus).** Later stage transactions, or transactions with demonstrable profitability, could be bundled and sold to investors, or part of their associated risks transferred to private guarantors or insurers for a fee, freeing up some MDB capital for more operations (as achieved by the AfDB's Room2Run).
6. **Deploy more concessional finance where it is most needed.** Boosting impact means taking on more risk, reducing risk, or bearing the

costs of making more transactions bankable or investible. Realistically, this means that MDB private finance arms are going to need more concessional finance, but only if they can demonstrate that the diversion of such scarce funds from public to private finance operations yields more scale and impact.

How to demonstrate this last point? By tackling the toughest, most pervasive development challenges in a way that promotes competition for scarce public resources. Much private sector development involves the search for products, services, and business models that work in low-income environments. It follows that MDBs would do well to concentrate on promoting scalable innovation and bearing part of the first mover risks and costs. Arguably the biggest successes in private sector development, where MDBs have played a key role, have been the making and growing of new business models and products, like mobile financial services, commercial microfinance, and household and off-grid renewable energy. Grants and other concessional finance have been essential in supporting scalable innovation, especially in poorer countries.

But MDBs must have workable mechanisms for avoiding the uncertainties and distortions of picking winners and losers. Making concessional resources available in competitive challenges, the terms of which maximize development/climate benefits relative to public subsidy dollars, should be the preferred means of deploying concessional resources to the private sector. One powerful, but underused, business line for MDBs in this regard is outcomes or performance payments, which intervene on the revenue (rather than cost or risk) side in a manner that allows the private sector itself to build a workable finance plan around an outcome-dependent revenue stream.

None of this will be possible without more clarity from shareholders in their strategic oversight of MDBs. Shareholders must be willing to explore and then challenge management and staff to launch major institutional change, if MDBs are themselves to become major agents of change in private sector-led sustainable development.

Insights from IFC's Blended Concessional Finance Program

INTERVIEW WITH **KRUSKAIA SIERRA-ESCALANTE**,
SENIOR MANAGER, BLENDED FINANCE, IFC



Q: *From IFC's perspective, how can DFIs leverage limited concessional financing efficiently to achieve scale?*

A: First, it's important to look back at how blended finance activity has scaled since the early 2000s. Five to 10 years ago, when we had a strong

year in blended finance at IFC, we were doing around \$100 million per year. In the last couple of years, we've been doing around \$500 million – this year we reached over \$700 million.

Overall, there will always be a limited amount of concessional financing because the challenges we

are grappling with are so large. For example, IFC conducted a deep dive into the blended finance needs for climate change, finding that we're short by around \$900 million to be able to achieve our goals and ambitions in the next five years.

But how we can stretch the amounts we have? There are several strategies we can do to achieve this:

Firstly, we need to have the **right mix of products**. As an example, first-loss guarantees can stretch relatively small amounts of concessional financing quite effectively to support a larger portfolio. We've done this in our response to the COVID-19 pandemic through the Working Capital Solutions (WCS) Program. Here, we used \$250 million of the International Development Association Private Sector window (IDA PSW) to be able to support over \$860 million of IFC's portfolio to provide working capital to many firms that needed quick solutions.

Another product that has a lot of promise in stretching donor financing is **performance-based incentives**. These are used to help incentivize a change in behaviour. These differ from what we call participation constraints – when you are supporting de-risking through blended finance products like first-loss guarantees, subordinate debt, or equity solutions. For example, we have extended performance-based incentives to support more financing to women entrepreneurs through the Women Entrepreneurs Finance Initiative (We-Fi).

Traditionally, blended finance has worked by **reducing interest rates**. This works well in more mature markets, but we need more solutions and de-risking for difficult markets.

However, the available instruments also depend on **donors and the conditions of their funding**. For example, with grant funding we can do performance-based incentives and first-loss financing. When donors have return expectations, the ability to take significant risk and the leverage potential are more limited.

At the end of the day blended finance must be used efficiently to avoid crowding out private investment. This means that when blended finance is being used in mature markets, there should be a bigger focus on bringing in additional partners, and less need for concessional finance. On the other hand, when working in difficult markets, there is a significantly higher need for concessionality – at least at the start. Our leverage numbers also show this: for each dollar of donor funding in climate finance, which is mostly focused on middle income countries, \$3 of IFC money is catalyzed, and \$7-8 of third-party capital. Meanwhile for projects in IDA countries, there is less capital mobilized, including from IFC and others (\$1.5 to \$2 of each), as there is a lower quantum of risk capital available and willing to tag along.

Q: *What can donors do to support MDBs in using blended finance more efficiently?*

A: Donors need to provide clarity on the key objectives of their financing for blended finance. If the focus is on too many impact objectives, this is harder to achieve.

We also need clarity on return expectations. If a donor wants high impact alongside returns, there will be trade-offs. If the most important thing is to achieve impact, and we can use any instrument and a lot of risk, that allows us to support projects in more difficult contexts.

Meanwhile if the emphasis is on reporting and evaluating programs, we need the resources to do so.

Q: *What are the benefits of deploying blended concessional financing using a programmatic or platform approach (as opposed to a project-by-project basis)?*

A: There are two main advantages of using a programmatic approach: i) efficiency, and ii) transparency.

1. Efficiency, as it relates to processing the underlying deals under the program, but more importantly, efficiency in structuring a solution to the identified market failure that can then help us calibrate the minimum concessionality.
2. Transparency, including disclosing the type and level of concessionality, and the instruments we are using.

We also think about replication; if the platform works well, IFC and others can replicate it. For example, IFC's Small Loan Guarantee Program helps financial institutions reach more SMEs in low-income countries. Through a pooled first-loss structure provided by the IDA PSW Blended Finance Facility, IFC shares 50% of SME portfolio risk with local financial institutions for an IFC risk amount of up to a specified level.

Finally, "platform" doesn't always just mean aggregating concessional financing (for example, through first-loss capital), or necessarily establishing a separate fund. It can also mean bundling transactions together (e.g., smaller climate-smart deals) and structuring a solution to the identified market challenge.

Q: *From IFC's perspective, how can DFIs ensure the mobilization of third-party capital, in addition to mobilizing their own resources into more challenging sectors and markets?*

A: Third-party capital from the private sector at scale will tend to flow to the mature sectors where they feel more comfortable, like infrastructure assets. Sectors like health, education, and agriculture are still too nascent for most institutional investors to feel truly comfortable.

In addition, we must look at bringing in local banks and take advantage of local capital markets. It's important to remember the role these local institutions can play and their greater comfort in investing in segments and locations that foreign institutional investors would avoid.

Q: *Convergence views a greater need for transparency in blended finance transactions, Given IFC's progress in this space, can you comment on IFC's work in this regard?*

A: We are the only DFI that discloses subsidy levels at the transaction level. We started in 2019, and we encourage other DFIs to do the same. In addition to transparent disclosure, more of our programs are using an open approach to bringing in new IFC clients to deliver more impact. At the same time, we need to be mindful that some information is sensitive on a deal-by-deal basis (e.g., pricing and returns) and private sector clients expect that commercially sensitive information not be disclosed. It is a balancing act.



3

Recommendation

Host country governments can create an enabling environment for blended finance by:

3.1 Leveraging limited public funding strategically to attract private investment

Creating an Enabling Environment for Blended Finance: How Ghana is using Public Funding to Attract the Private Sector

BY **THE HONORABLE KEN OFORI-ATTA**, MINISTER OF FINANCE AND ECONOMIC PLANNING OF GHANA



MINISTRY OF FINANCE
Government of Ghana

Ghana's Economy Post-COVID 19

Amidst a global pandemic, African countries — like many other emerging economies — are facing a dilemma. Their infrastructure investment needs are expected to grow well above historical trends — now estimated between \$130 and \$170 billion a year, with a financing gap of \$68 to \$108 billion, especially in poorer areas — while public financing sources remain limited.

Ghana's strategy is to achieve sustainable financing by scaling up blended finance for the SDGs. We recognize the need for an ecosystem that is legally grounded, a domestic environment

that promotes SMEs, and a confident indigenous entrepreneurial society with a robust democracy, economic stability, regional scalability, and strong international profile.

The government of Ghana has determined, through its Country Financing Framework, that \$522.3 billion is required to fully meet the country's SDG targets by 2030 (averaging \$52.2 billion per year). Aligning this with the budgetary requirements for the SDGs yields a funding gap of \$43 billion in 2021, and this is expected to increase annually to \$45.7 billion in 2030, yielding a cumulative financing gap of \$431.6 billion by 2030.

The Need for Private Capital Alongside Strong Government Interventions

Given the current circumstances, a robust recovery will be impossible without major capital injection from the private sector. This belief is also reflected in the GHS100 billion (\$16.5 billion) Ghana COVID-19 Alleviation and Revitalization of Enterprise Support (CARES) programme aimed at bolstering our socio-economic recovery from the pandemic, 30% of which will be funded by government, and 70% by the private sector.

The devastating impact of the current pandemic and extreme weather events caused by anthropological climate change, highlights the importance of timely and proficient government interventions – thus, the government of Ghana's strong social and economic response to the pandemic. This resonates with Mazzucato's argument¹² that "a revitalized and activist government is necessary to reform capitalism and solve today's most pressing problems."

Essentially, governments should use their immense economic influence to create, shape, and lead markets to serve public purposes.

Critically, governments across the emerging world are seeking to incentivize the private sector into open and accountable long-term relationships characterized by fair risk sharing, access to private service managerial expertise, and the transfer of innovative ideas to secure better public services and lay the foundations for a post-COVID recovery.

How Ghana is Using Public Funding Strategically to Attract Private Investment

Leveraging innovative sources of funding has also assumed greater significance. As we enter the Decade of Action to realise the SDGs, tools such as blended finance offer a strategic opportunity

to mobilise additional resources at a time when the availability of "affordable" financing for development is under threat.

The historic \$650 billion equivalent Special Drawing Rights (SDR) issuance by the International Monetary Fund (IMF) is a testament to the need for immediate liquidity to support the global recovery. Africa's allocation of \$33 billion is inadequate to produce a broad-based and meaningful recovery, given the estimated \$425 billion (\$245 billion for Sub-Saharan Africa) of additional financing required within the next three years.

We strongly advocate for the redistribution of at least \$100 billion to Africa to increase concessional financing through the World Bank's International Development Association (IDA) and the IMF's Poverty Reduction and Growth Trust (PRGT). We also argue for recapitalizing the AfDB and Afreximbank to effectively support Africa's industrialization, facilitate trade, and promote the private sector to create jobs. This redistribution will incentivize green and sustainability-linked investments through a new Liquidity and Sustainability Facility (LSF) and establish a pan-African Stability Mechanism similar to the European Stability Mechanism, which would give Africa the fiscal space to manage its debt and safeguard financial stability on the continent.

Over five years into the implementation of the SDGs and with under nine years to the 2030 deadline, blended finance may be the only way to secure the necessary funds to ensure the successful realization of the 2030 Agenda, especially in light of annual financing gaps far beyond the combined financing capacity of governments, aid agencies, and multilateral development banks.

As a result, the Government of Ghana has prioritized the pursuit of public reforms, capacity building, and crowding in of private sector funds to

¹² Mazzucato, M. 2021. Mission Economy: A Moonshot Guide to Changing Capitalism. US: Harper Business.

finance its infrastructure deficit of \$45 billion; build continent-wide businesses that can take advantage of the African Continental Free Trade Area (AfCFTA); and create the conditions for a vibrant private sector in which SMEs can flourish, create jobs, and improve livelihoods.

Fundamentally, the Government of Ghana believes that after the government provides a “de-risked” landscape for private capital seeking rewarding investments, there will be more opportunities for investors to realize attractive risk-adjusted returns in Ghana which are far above the Sub-Saharan African average.

It is for this reason that the Public Investment Management (PIM) Regulation and Public-Private Partnership (PPP) laws were passed in December 2020 to provide the needed environment and comfort to investors, both local and international, to support our financing goals.

In addition, the Ghanaian government is working hard to become an easier place to do business by digitizing government services through initiatives like Ghana.Gov, while also establishing the Development Bank of Ghana as a financial superstructure that ensures easy access to cheap

capital to spur the productive sectors of the economy.

In truth, blended finance represents a tool to harness the power of the private sector and accelerate our structural transformation. The success of blended finance will not be measured only in terms of the scale of investment triggered, but also by its contribution to creating a more inclusive, sustainable, and resilient economy, capable of crowding in private capital into both traditional and non-traditional growth sectors.

We are confident that blended finance can help unlock the flow of private capital toward scalable sectors like infrastructure and towards SDGs such as SDG1: *No Poverty*.

As Ghana and Africa prepare to move into an era beyond aid, there ought to be genuine partnership from development partners and the private sector to recalibrate the global financial architecture for a more effective flow of funds. We are also confident that the intervention of the Ghana CARES Obaatanpa programme and the financially inclusive ecosystem being constructed should keep the pipeline of blended finance active in order to close the SDG funding gap.



3.2 Using regional and national MDBs / DFIs as deal originators

A Real Good Deal For Institutional Investors and Developing Countries

BY **MICHAEL AWORI**, DEPUTY CHIEF EXECUTIVE OFFICER AND CHIEF OPERATING OFFICER, EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB BANK)



Blending Institutional Capital for Sustainable Development at TDB

At TDB, blended finance is at the core of all areas of our balance sheet. Working with global, regional, and local financial institutions, from both policy and commercial spaces, we de-risk via risk-sharing and co-financing arrangements, obtain and deploy both concessional and commercial financing, including from capital markets, and offer and receive guarantees, as well as technical assistance.

What is different about TDB is how we blend institutional capital into our own equity. In 2013, we carried out important governance structure reforms that allowed institutional investors – pension funds, insurance companies, DFIs, and others – to become shareholders via a new class of shares, Class B shares. The introduction of this hybrid public-private capital structure – unique in the world of DFIs globally – strengthened our ability to deliver on the promise of triple bottom-

line impact. Coupled with other critical reforms, and the creation of centers of excellence in risk management, operations, treasury, and human resources, this led TDB to achieve investment-grade ratings in 2017.

We first built our track record in blended finance with about a dozen pioneer African institutional investors from our region, which inspired Denmark's Investment Fund for Developing Countries (IFU), the OPEC Fund, and others to join in. So far, \$230 million has been committed by these investors.¹³ Institutional shareholders putting skin in the game enable us to continue improving our own risk profile, grow our capital base and lending capacity, crowd-in more debt capital from well-rated funding partners on increasingly better terms, and in turn, grow a more diversified and de-risked portfolio. Likewise, deploying capital in our region obtained on very good terms thanks to our investment grade ratings enables us to continuously improve our offer to clients, on terms

¹³ TDB institutional investors include among others: the African Development Bank (AfDB), African Economic Research Consortium (AERC), Africa Reinsurance Corporation (Africa-Re), Arab Bank for Economic Development in Africa (BADEA), Banco Nacional de Investimento (BNI, Mozambique), Caisse Nationale de Sécurité Sociale (CNSS, Djibouti), Eagle Insurance (Mauritius), Investment Fund for Developing Countries (IFU, Denmark), National Pension Fund (NPF, Mauritius), National Social Security Fund (NSSF), The OPEC Fund for International Development (the OPEC Fund), PTA Reinsurance Company (ZEP-RE), Rwanda Social Security Board (RSSB), Sacos Insurance Group (Seychelles), and Seychelles Pension Fund (SPF).

that they would otherwise not be able to get on their own, and because of our mandate, as always, with sustainability conditionalities.

As is the case for any offer to institutional investors, we had to design a product that matched their risk-return preferences: returns on investment that are competitive on a global scale, yearly dividends, significant development impact, voting rights, and the possibility to exit after five years. This time span is neither too long to deter investors nor too short to jeopardize our long-term relationships with clients, whether sovereign, corporate, or local financial institutions.

We give institutional investors the possibility to leverage every dollar invested by up to four to five dollars, and an investment platform that gives them exposure to all of our trade and project finance transactions at the same time, thus diluting their risk. This ultimately enables us to step-up our exposure to long-term quality development impact projects, and as such, better serve our constituency of sovereign shareholders.

Since Class B shares were introduced, TDB's shareholder base has doubled, and equity and total assets have quadrupled. Thanks to our continued performance both in terms of returns and impact, IFU doubled its investment in 2020 and Djibouti's Caisse Nationale de Sécurité Sociale joined earlier in 2021 – both amidst the pandemic. Today, TDB counts 18 institutional investors among its 41 shareholders.

Building a Sustainable Future with Institutional Capital

As we stand, despite the growing appetite of institutional investors for ESG opportunities, allocations into infrastructure and other high impact sectors conducive to sustainable development are still quite low.

DFIs' traditional capacity to blend finance through commercial and concessional funding, issuing guarantees to advance projects, and providing advisory services, capacity building, and technical assistance, can expand the pipelines of quality bankable projects made available to institutional investors. That said, getting institutional investors to invest in the risk capital of DFIs like TDB can help deepen this pipeline in a significant way. It is a creative way to dissipate risks without transferring them onto any one party in particular.

There are win-win ways to get institutional investors involved, provided they are presented with the right value proposition, and a track record that truly inspires confidence. In fact, to date, despite our exit option, no institutional investor has decided to leave TDB, and many choose to recapitalize their dividends every year. Our sovereign shareholders continue to embrace this approach. Just a year ago, they approved, along with our institutional shareholders, our largest capital increase programme to date, the doubling of our authorized capital stock, and the introduction of a new class of shares.



3.3 Focusing on blended finance projects for local investors that are appropriately structured.

Mobilizing Local Currency Financing at Scale Through a Multi-Donor Funded Blended Finance Facility

BY **CHINUA AZUBIKE**, CHIEF EXECUTIVE OFFICER,
INFRA CREDIT NIGERIA



Background – Nigeria’s Economy and COVID-19

COVID-19 has put increased pressure on Nigeria’s already severely constrained fiscal space, defined by low revenues and high debt service costs, whilst ODA receipts will likely decline as advanced economies face their own pressure on budgets. This has been compounded by the sharp and persistent fall in oil prices, resulting in at least a N1.5trillion (\$4.2billion) 2020 budget reduction.

InfraCredit – Intermediating local currency financing from domestic investors

As the largest source of long-term local currency investment capital, local pension funds have an especially important role to play and present a significant and important opportunity for large economies like Nigeria. As of May 2021, assets under management of Nigeria’s domestic pension funds stood at N12.3 trillion (\$31.8 billion) (growing at 15% per annum), of which 35% - or N4.3 trillion (\$11.2 billion) - can be allocated to corporate debt securities to finance new infrastructure development that will create jobs, protect the

environment, reduce poverty, and promote local economic growth.

Currently, though, less than 1% of domestic pension funds are deployed towards corporate infrastructure bonds, due to a lack of high quality and well-structured bankable projects, as well as low risk appetite. InfraCredit is an ‘AAA’ rated specialized infrastructure credit guarantee institution backed by the Nigeria Sovereign Investment Authority, GuarantCo, KfW Development Bank, Africa Finance Corporation, African Development Bank and InfraCo Africa to provide local currency guarantees and mobilize long-term debt financing for infrastructure in Nigeria, by attracting domestic credit from pension funds, insurance firms and other long-term investors into credit-worthy infrastructure projects, thereby deepening the Nigerian debt capital markets.

Through its guarantees, InfraCredit has enabled first-time access to N54 billion (USD 130 million) of local currency finance in the domestic bond market, with tenors of up to 15 years. This was oversubscribed by up to 60% by local pension fund investors, with 15 local pension fund

investors subscribing to the InfraCredit-guaranteed infrastructure bonds, signifying strong domestic investor appetite.

However, a major limitation on affordability in the Nigerian market is the high level of interest rates, which is in part due to the high level of inflation. Nigeria's inflation rate hit 17.75% in June 2021, reflecting the uptrend in both food and core inflation exacerbated by the pandemic. Currency, maturities, and the cost of capital drive the cost of service for consumers of basic infrastructure more than any other area of the economy. This is because the life-cycle cost of operating infrastructure services is predominantly capital cost. Amortizing those costs over long periods of time and doing so with as low interest rates as possible and in local currency has a direct impact on the affordability of service, and hence on poverty alleviation¹⁴.

Given the number of Nigerians living in poverty, the bulk of blended finance will mainly be needed to make sustainable economic infrastructure (cleaner, more climate resilient energy, roads, water, buildings etc.), sustainable land use and social infrastructure (health, education) in developing countries like Nigeria more “investable”.

Need for a Multi-Donor Funded Blended Finance Facility

InfraCredit sees blended finance as a critical avenue through which DFIs and donor institutions can complement the intermediation role of entities like InfraCredit in mobilizing private sector investments into traditionally more challenging SDG-related infrastructure.

InfraCredit proposes a blended finance approach, namely the creation of a multi-donor funded facility, that will address the twin challenges

of (i) accessibility: making critical SDG-related infrastructure projects accessible to pension funds and leveraging local currency domestic pension funds and promoting domestic resource mobilization for infrastructure finance; and (ii) affordability: enabling access to relatively cheaper funds to finance critical infrastructure projects.

We recommend that a dedicated pool of resources structured as a blended fund be established and funded with ODA and philanthropic funding, with a mandate to co-fund eligible SDG-related infrastructure projects. Institutions like InfraCredit will provide the missing private intermediation capacity required to select, assess, and structure eligible projects for financing and mobilize domestic private capital from pension funds.

The intervention model will involve providing returnable grant funding via structuring blended finance bond issuances, with the blended fund subscribing to the bonds issued by eligible project companies under concessionary terms to enable such companies to raise long-term local currency debt funding from the debt capital markets, to be guaranteed by InfraCredit.

The principal and applicable annual interest payments received on the returnable grant component can be invested back into the blended fund and/or also used to cross-subsidise any catalytic social intervention, creating a virtuous circle of capital recycling leading to development impact and innovation.

To ultimately achieve this at scale, donor coordination will be an integral necessity. This may be achieved on a sequential basis, with an initial donor seeding the facility and promoting the proof-of-concept pilot phase, thereby acting as a catalyst to crowd in other donors into the facility.

In this new era, organizations like InfraCredit have

¹⁴ Institutional Investment in Infrastructure: A view from the bridge of a development agency JORDAN Z. SCHWARTZ, APRIL 16, 2015

demonstrated that blended finance can attract new sources of domestic private sector financing that complement public resources, and innovative solutions for sustainable development and inclusive economic growth are emerging, together with new tools, technologies, and approaches to partnership.

We believe that to unlock the power of blended finance with innovation, to have catalytic impact

at scale, donors will need to evolve from their traditional role as mere funders of programs to become catalysts, leveraging local institutional intermediation capacity and using their capital strategically to drive private investment and action towards supporting SDG infrastructure development that will create jobs, protect the environment, reduce poverty, and promote local economic growth.

3.4 Establishing domestic institutional investor consortia to mobilize local currency financing.

Mobilization of Local Currency Financing at Scale Through Domestic Institutional Investor Consortia

BY **NGATIA KIRUNGIE** AND **DAISY ETEMESI**, KENYA PENSION FUNDS INVESTMENT CONSORTIUM (KEPFIC) SECRETARIAT



Local investors in Africa have a plethora of infrastructure investment opportunities to participate in. However, most of these investments are made by foreign firms and DFIs. In Kenya, prominent examples include The Jomo Kenyatta International Airport - Westlands Expressway, executed under a Public-Private Partnership (PPP) with a China-based investor at a cost of Ksh 106 billion (975 million), and the building of the Nairobi-Nakuru-Mau Summit Highway, funded by a French consortium at a cost of Ksh 160 billion (\$1.5 billion).

Considering the sheer size of the funding being deployed, it's clear that the international community has recognized the investment opportunity in Africa's infrastructure development.

This raises the big question – why aren't local institutional investors such as pension funds also participating? While working closely with local pension funds to mobilize domestic investments into infrastructure, we unearthed several answers to this critical question.

Firstly, there is limited awareness of these investment opportunities, which pension funds only learn of once transactions have been signed off and are in the press, leaving them with no opportunity to participate. Secondly, infrastructure is a new asset for most pension schemes, who understandably have limited investment experience and expertise in this space. Third, infrastructure investment sizes are

typically very large, locking out all but a handful of the largest schemes, while smaller schemes, which are by far the majority, would risk breaching regulatory investment limits. Finally, infrastructure investments are long-term by their very nature and are often illiquid relative to traditional capital market instruments like listed equities and bonds. While long dated investments are important for pension fund asset-liability matching, they often place a premium on liquidity given the need to liquidate assets when obligations are due.

The Kenya Pension Fund Investment Consortium (KEPFIC) was formed to address the above hurdles. It is a consortium of Kenyan retirement funds that have come together for the purpose of collaborating to make sustainable long-term infrastructure and alternative asset investments in the region.

KEPFIC has a five year target to mobilize, pool, and invest over \$250 million, while providing our members with competitive returns and diversification opportunities, as well as capacity building and investment expertise. Further, KEPFIC is the collective voice representing the pension fund community on policy and regulatory matters touching on infrastructure investments.

Annual Infrastructure Funding Gap in Africa

By most conservative estimates, Africa's infrastructure funding gap stands at over \$70 billion annually, and over \$2.1 billion annually in Kenya alone. National governments have historically been the leading source of funding for infrastructure investments in Africa, but are now facing the twin challenges of growing budget deficits and competing priorities, such as healthcare, food security, etc. As such, there is significant room for growth for private sector infrastructure investments. KEPFIC has introduced the potential of infrastructure investments to the local pension fund community and made them accessible through the pooling of investment resources.

Infrastructure possesses several attractive characteristics for pension schemes:

- **Competitive returns:** Infrastructure investments offer competitive returns and reliable cash flows.
- **Diversification:** Infrastructure is a unique asset class, with low correlations to other classes and whose returns are significantly less sensitive to fluctuations in business cycles, interest rates, and stock market performance.
- **Cash flow stability:** Infrastructure investments offer steady and predictable cash flows through contractual and often regulated revenue models.
- **Inflation hedge:** The rates charged on the usage of infrastructure assets are often linked to inflation, protecting investor's real returns.

KEPFIC is cognizant that infrastructure investment is a relatively new concept to many pension schemes, who are typically highly risk averse. We take this into account when selecting investment opportunities for our members. For example, KEPFIC prefers debt instruments to equity, due to its lower risk and structural familiarity for pension schemes. KEPFIC takes this a step further by prioritizing investments that have a guarantee cover to ensure capital preservation and secure pension schemes' returns. Additionally, KEPFIC seeks to secure preferential returns and investment terms from deal sponsors for our members due to the scale of our pooled investment firepower, and our members further benefit from the economies of scale of shared investment due diligence, which is costly and can be a hurdle to pension fund participation.

Beyond making joint investments, KEPFIC holds regular investment conferences and training sessions on the different sub-sectors of infrastructure (energy, transport, water, housing, telecoms, etc.) to build the capacity of pension schemes, giving them a better understanding of the investments at hand. In addition, KEPFIC works closely with our partners USAID, the World Bank and

MiDA Advisors to provide independent assessments of potential investments, providing pension schemes with an unbiased view of the benefits and risks of these investments from experienced infrastructure and project finance experts.

There lies a big opportunity in domestic infrastructure development. Local institutional investors, especially pension funds, can gain access

to these opportunities by pooling funds through organizations like KEPFIC. Amidst difficult economic conditions and volatile markets, pension funds are grappling with diminishing and volatile returns from traditional asset classes, all while alternative assets, such as infrastructure, offer much needed enhanced returns and diversification benefits while reducing risk and offering stable cash flows.



4

Recommendation

Practitioners should support scale by focusing on proven and replicable blended finance structures. They should also fund standardized simplified fund structures and look to launch aggregation vehicles.

Moving from Ambition to Action: A Call for Stronger Public and Private Partnerships

BY **RAEL MCNALLY**, SENIOR PORTFOLIO MANAGER, GLOBAL RENEWABLE POWER, BLACKROCK, AND **FRECK SPOORENBERG**, GLOBAL HEAD OF PRODUCT STRATEGY & INVESTOR RELATIONS, INFRASTRUCTURE EQUITY, BLACKROCK



There has never been a better time to invest in climate infrastructure. Governments are embracing policies that encourage climate investment, creating measures to keep global warming under two degrees Celsius. Conversations among investors are centered around the opportunities that this transition will create. It is the largest cohesive, intentional, reshaping of the global economy ever attempted, and the scale and pace of that reshaping touches every country and market sector. The transition to a net zero economy presents a historic investment opportunity requiring at least \$50 trillion in funding over the next 30 years. This enormous amount of capital cannot be met by public monies or development finance institutions alone. Private investors have a key role to play.

To achieve the transition to a net zero economy, at least in the first instance, we need to be more innovative and creative in finding ways to bring public-private partnerships to bear on these issues. Partnering with international public financial institutions to help reduce or mitigate some of the idiosyncratic risks of investing in emerging markets is critical to support low-carbon investments at scale. As Blackrock CEO Larry Fink stated in his speech at the Venice International Conference on Climate: *“If we don’t have international institutions providing that kind of first-loss position at a greater scale than they do today, properly overseeing these investments, and bringing down the cost of financing and the cost of equity, we’re just not going to be able to attract the private capital necessary for the energy transition in the emerging markets.”*

According to Bloomberg NEF, almost 80% of emissions in the next decades will come from developing countries. And those same vulnerable communities and developing nations are those most exposed to the harmful impacts of climate change - as well as being home to more than half of the global population. Working together, we can reduce the climate's impact on the poor, reduce forced displacement, while creating new markets for the private sector.

We need a cohesive global approach that spans both the private and public sectors, with each side defining their sector-specific pathways to net zero and their intersection with one another.

The Climate Finance Partnership (CFP) is a prime example of our work as part of this effort. Together with the governments of France, Germany, and Japan as well as several leading U.S. impact organizations, we have created a unique blended finance fund structure that seeks to help de-risk the opportunity set in emerging markets for institutional investors. In this case, participating governments and philanthropic institutions subordinate their initial economics to provide downside risk and return protection to the private fund investors, who receive an outsized share of fund outperformance.

This type of public-private partnership and first-loss protection will, we believe, further incentivize private investors to participate in what is expected to be the fastest growing infrastructure investment opportunity of the coming decades, one they might otherwise not consider due to perceived risks. CFP's blended finance structure is designed to "crowd in" institutional-quality private capital at scale.

Our partnership with these leading development financial institutions has seen CFP gather strong interest at the highest levels in organizations and

has resonated, top-down, thanks to our French, German, and Japanese partners' advocacy for the strategy. Having started capital raising at the start of 2021, the Fund hit 75% of its \$500 million fundraising target, on 30 September, with 15 distinct investors, across a wide range of investor groups, backing the partnership. Given demand, CFP is now pulling its final close forward as it is oversubscribed and will be closed in less than 9 months since the institutional fundraising launch.

As we look back on our fundraising journey, one of the most important lessons learned when it comes to mobilizing finance (public and private) into emerging markets, is the need to have an open discussion on the risks and opportunities in these regions and share experiences. Education is needed, across both governments and institutional capital, on the benefits of public-private partnership, of symbiotic blended finance structures, the investment fundamentals present in emerging markets clean infrastructure, as well as the potential benefits of being a first mover in this space.

With investors seeking more sustainable investments, greater impact from their investments, and a just transition, we believe the level of dialogue and investor education on what is needed to achieve those objectives needs to increase. A just transition isn't simply about expanding investors' knowledge and understanding about climate change, it speaks to their shareholders' values, sense of place, and a collective responsibility.

The scale of this historic investment opportunity requires creative, collaborative thinking, and partnership across governments, DFIs, private and other investors - really from all market participants. We are excited to be able to share our experiences at the outset of this exciting journey.

Launching Aggregation Vehicles to Achieve Scale In Blended Finance

INTERVIEW WITH **FLORIAN KEMMERICH**, MANAGING PARTNER,
BAMBOO CAPITAL PARTNERS



Q: *What were your motivations for creating SDG500?*

A: We created SDG500 to aggregate individual funds that would otherwise have been too small for large-scale institutional investors to join. That way, we could provide larger ticket sizes to investors while still deploying financing to smaller deals on the ground. These funds are a blend of fixed income and private equity funds, and have received catalytic capital, such that the risk-reward ratio for their senior share classes is reduced. When aggregating them within an umbrella investment vehicle, you can achieve:

1. Scale: in the region of \$500 million+ rather than \$70-100 million individually.
2. Enhanced returns: Providing attractive market-oriented returns by combining debt funds with lower Internal Rates of Return (IRRs) and equity funds with higher IRRs.
3. Reduced risk: Risk is further diversified by gaining access to six different funds rather than just one.

Q: *What are the challenges when structuring an aggregation fund like this?*

A: Before the COVID-19 pandemic, we found that interest was high because of the potential of the fund to crowd in financing for the SDGs. However, the impact of the pandemic, lockdowns,

and travel restrictions meant institutional investors concentrated on their existing relationships with general partners (GPs), while also targeting more traditional structures.

SDG500, however, is not a plain vanilla structure. Firstly, the platform combines two different asset classes (debt and equity). Additional due diligence is also required when assessing six different funds from a risk perspective. This is particularly challenging when you have institutional investors focusing separately on the different asset classes. In addition, the basic perceived risk of investing in emerging markets adds another layer.

Finally, being truly catalytic, the SDG500 platform with its partners deploys smaller ticket sizes to smaller projects on the ground. However, given the breadth of smaller development projects on the ground in developing markets, intermediating between large amounts of capital committed requires an increased cost of doing business due to its labor intensity on the ground.

Q: *Is there potential in replicating the SDG500 structure?*

A: Our structure is easily replicable as each of the individual elements on the platform are well known and have already been proven. However, based on feedback from the market, in the future we might also look to add insurance or guarantee structures to our platform, to further cover risks associated with small ticket sizes on the ground.

Q: *There aren't a lot of vehicles like this in the market. Why?*

A: Larger aggregation vehicles definitely have a place in blended finance, but it can be difficult to find individual projects of a size that a \$1 billion platform can commit to. Larger projects are typically later stage and therefore may not really need blended finance given that their ticket sizes reduce the underlying risk. The task that we're looking to solve is matching small investments on the ground to a large aggregation of blended finance platforms. Larger funds would already exist if there was enough deal flow for larger ticket sizes, but in that scenario blended finance would be of less interest.

Q: *Can the suppliers of concessional capital (donors, foundations etc.,) do more to address the market need to develop more aggregation vehicles?*

A: The donor community could align itself on a joint theory of change rather than splitting the provision of catalytic capital either on a national level or according to different and contending thematic targets (e.g., climate change, smallholder farmers, etc.) Contending national development agendas lead to donors often not pulling in the same direction on types of investment, sectors, geographies, and SDGs, making it difficult to align and attract donors into a single aggregation vehicle requiring a large quantum of concessional financing.

Q: *Any lessons learned or guidance to practitioners looking to launch similar aggregation vehicles?*

A: Combining asset classes has been a real challenge, as mainstream financial investors generally deploy either debt or equity via specialized teams and parameters. In addition, typically the business model of an asset manager involves raising a pool of capital from investors, with the resulting investment vehicle having a fiduciary responsibility to deploy this capital according to the investors' specifications. However, practitioners launching aggregation vehicles targeting development projects in emerging markets must instead have a bottom-up approach. When launching a blended impact fund, rather than waiting for a first close in which the typical +30% fund target size is reached, it is advantageous to start by deploying the initial quantum of catalytic capital, showing traction with its initial underlying assets, and increasing the vehicle's assets under management (AUM) from there over time.

5

Recommendation

Convergence advocates for innovation in blended finance that is additional to the market, yet familiar and replicable to investors. Incremental innovations, and not icebreaker transactions, will be the pathway to scaling blended finance to meet the SDG financing gap.

Pushing The Boundaries Of Blended Finance: Introduction To The Lab

BY **BEN BROCHÉ**, MANAGER, THE LAB (CLIMATE POLICY INITIATIVE)



Scaling up all types of investment, especially from the private sector, will be a crucial element in the transition to a climate-resilient, clean energy economy. However, there are several barriers that stand in the way of scaling up climate investment, especially in emerging economies. These include inadequate access to or a high cost of capital, policy and knowledge gaps, and investor risk – whether real or perceived.

The [Global Innovation Lab for Climate Finance \(The Lab\)](#) was established in 2014 by several donor governments in partnership with key private sector representatives to play a key role in this transition,

by fast-tracking ambitious blended finance concepts to drive billions of dollars of private investment into climate change mitigation and adaptation in developing economies.

Since its launch, the Lab, managed by Climate Policy Initiative, has matured into a robust partnership of over 70 expert member institutions and has developed 55 instruments that have collectively mobilized over \$2.5 billion in climate investment.

The Lab's methodology and definition of innovation in blended finance

The Lab screens and selects a small subset of ideas (typically six to eight) for entry into the program based on the Lab's four defining criteria:

- **Innovation** – a financial solution that clearly addresses barriers to private climate finance that are not yet being addressed by the market, or that will be addressed in an improved manner compared to other approaches.
- **Actionability** – concepts that clearly articulate investor interest, pathway to market, and a strong team track record.
- **Catalytic Potential** – instruments with potential to mobilize private climate capital within a sizeable market, be scaled up or replicated in other contexts, and achieve measurable climate, development, and environmental impacts.
- **Financial Sustainability** – long-term viability of an instrument, in that it identifies a realistic strategy to operate on a commercial basis, having phased out any public, concessional, or other catalytic financial support, and achieves its intended long-term objectives.

Examples from the Lab's portfolio

For each of these criteria, the Lab analyzes an instrument's intended pathway in early-stage pilot development, and at scale.

While we are an innovation lab—a testing ground for new approaches to blended finance—the Lab thinks of innovation more in terms of clarity of value-add to the target market and sector, rather than an approach that is entirely novel. In some cases, innovation and actionability (and therefore impact) can be inversely correlated, so an overly complex, esoteric concept for a financial vehicle is

not necessarily one that will attract investors and lead to material climate and development impacts. Successful Lab instruments often employ financial structures that are familiar to investors, but combine them in new ways to address risk or other investment barrier, or apply them to a new climate issue, region, or sector.

An example of this is [The Green FIDC](#), an instrument developed through the Lab and supported by Convergence's Design Funding program, that builds on a financial structure often used by companies in Brazil to raise capital by securitizing receivables through asset-backed securities. The proponents, Albion Capital, were the first to apply this proven approach to renewable energy and energy efficiency projects. Green FIDC [closed](#) its first \$35 million in April 2021, and the Lab is currently working with Albion on replicating the approach in other climate-relevant sectors.

Balancing innovation and scale to build a sustainable future

As the timeline for addressing climate change shortens rapidly, the ability for climate-focused blended finance instruments to scale quickly becomes increasingly important. Many Lab instruments focus on creating scale in climate finance – for example, by aggregating many individual projects into a broader investment portfolio. Yet each time a new fund or approach is introduced, a lengthy process of design, fundraising, and partnership negotiation is required, frequently extending up to three to four years. When determining the transformative potential of blended finance ideas, we have found it a challenging, albeit essential task, to balance innovation with the ability to reach scale in a relatively short period of time.

Technical assistance has proven to be a critical success factor for moving ideas to market. The Lab team at CPI is continually adapting the assistance

provided, expanding beyond instrument and pilot design to go-to-market support. As the Lab moves into the next chapter of its evolution, our focus is extending beyond initial pilot to building enabling conditions for business traction and accelerated market rollout. We are closely collaborating with Convergence and other key partners to align support as quickly and efficiently as possible, maximizing full implementation and impact on the ground.

The balance between innovation and the potential for scale differs by region and sector. As the market for blended finance transactions in renewable energy has grown exponentially over the past several years, the emphasis has shifted to scale-ready innovations. However, when looking at

crucial sectors that are more emergent in investor portfolios, such as nature-based climate solutions, blue carbon, or the vast array of climate adaptation investments, this balance may sway more toward early-stage innovation, and a longer runway to commercialization and scale.

As we move into this decisive decade for climate action, blended finance will serve an ever-growing role in aligning comparatively limited public, philanthropic, and concessional funding to unlock private investment. This will in-turn broaden the lenses of commercial and institutional investors to a future where emerging market climate investment is mainstreamed into the portfolios of asset managers and institutions around the world.



Recommendation

All practitioners, but particularly donors, should publicly disclose blended finance data at the transaction level.

Boosting Transparency On Blended Finance Transactions To Achieve Scale



BY **PAUL JAMES**, RESEARCH OFFICER, PUBLISH WHAT YOU FUND

At Publish What You Fund we have spent the last 18 months studying the transparency of various aspects of DFI activities through the DFI Transparency Initiative. Our research has highlighted several areas that require improved transparency, including: i) the disclosure of the levels of concessionality deployed within investments, ii) the development impact of investments, and iii) the extent to which investments mobilize private sector finance. The publication of this data is essential for demonstrating the value and impact of blended finance operations and allowing institutions to learn from each other.

Firstly, DFIs must be more transparent about the level of concessionality (or subsidy) that is included in their blended finance investments. Concessional finance is often public or philanthropic money, and as such, is an increasingly scarce resource. While

concessional investment terms may be required to de-risk certain DFI investments, subsidies should be used only when necessary and should be no larger than is necessary. In other words, it is important to establish that blended finance investments offer good value for the providers of concessional funds. This is hard to ascertain when DFIs are not transparent about the level of subsidy that is attached to an investment.

One notable exception comes from IFC. Following a commitment to disclose levels of concessionality in the IDA PSW investments that they manage, IFC have rolled out disclosure of concessionality levels for all their blended finance operations. While different financing operations may require different reporting regimes, it is now time for other DFIs to follow IFC's lead and disclose the concessionality in their blended finance operations.

In addition, the value of blended finance is also determined through evaluating the development impact of blended transactions. Publish What You Fund's research has shown that project-level impact reporting is inadequate across DFIs. This is of particular importance to operations given that these resources arguably come with a higher opportunity cost than DFIs' own capital resources. In recent years, DFIs have developed increasingly sophisticated ex-ante impact prediction and ex-post monitoring toolkits, such as IFC's Anticipated Impact Measuring and Monitoring (AIMM) system and DFC's Impact Quotient (IQ) system. These developments mark significant progress; but they are of limited value unless DFIs begin to systematically publish the results of their investments. The development of these tools indicates that DFIs have access to much of this information and should therefore be seeking permission from their clients to disclose it.

Finally, the private sector has a central role to play in determining if investments in developing economies will increase sufficiently to achieve the SDGs. As such, project level data on the mobilization of private sector finance represents the third part of the blended finance transparency puzzle. Numerous multilateral DFIs publish aggregate data on mobilization, through the DFI Working Group on Blended Concessional Finance

for Private Sector Projects, and the MDB Joint Report on Mobilization. While these reports provide useful data on the broad trends in DFI blended finance and mobilization generally, the lack of disaggregated data is a limitation. Transparency around mobilization at the level of individual deals would allow practitioners to identify more accurately the types of investments that can contribute to these end goals.

Publication of investment-level concessionality, impact, and mobilization data would go a long way to helping to better establish the value and efficacy of DFI blended finance operations. It would also provide a powerful demonstration effect to impact investors and others to encourage them to enter these important markets. Yet this should not be the limit of DFI's ambitions in improving the transparency of their operations. At Publish What You Fund we have developed a DFI Transparency Tool based on extensive research that will be launching in November 2021 and incorporates all the above data points in addition to a range of other information. The tool has two central functions; to provide a practical guide for DFIs in achieving higher levels of transparency, and to provide a means of assessment of DFI transparency. Publish What You Fund will be conducting and publishing an assessment of DFI transparency practices in late 2022.



Convergence is the global network for blended finance. Convergence generates blended finance data, intelligence, and deal flow to increase private sector investment in developing countries and sustainable development. The State of Blended Finance is Convergence's annual report on blended finance trends, opportunities, and challenges. It builds on the inaugural report released in July 2017.

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